

THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:

)
CERTAIN STEEL WIRE GARMENT) Investigation No.
HANGERS FROM CHINA) TA-421-2
)

Thursday,
January 9, 2003

Room No. 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced, pursuant to Notice, at 9:32 a.m., before the Commissioners of the United States International Trade Commission, the Honorable DEANNA TANNER OKUN, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

DEANNA TANNER OKUN, CHAIRMAN
JENNIFER A. HILLMAN, VICE CHAIRMAN
LYNN M. BRAGG, COMMISSIONER
MARCIA E. MILLER, COMMISSIONER
STEPHEN KOPLAN, COMMISSIONER

APPEARANCES: (cont'd.)

Staff:

MARILYN R. ABBOTT, SECRETARY TO THE COMMISSION
WILLIAM R. BISHOP, STAFF ASSISTANT
JAMES MCCLURE, SUPERVISORY INVESTIGATOR
DEBRA BAKER, INVESTIGATOR
WILLIAM GEARHART, ATTORNEY
HARRY LENCHITZ, INDUSTRY ANALYST
JOHN BENEDETTO, ECONOMIST
CHARLES YOST, ACCOUNTANT/AUDITOR

In Support of Relief:

On behalf of CHC Industries, Inc.; M&B Metal Products Company; and United Wire Hanger Corporation:

JOHN G. ROBY, President and CEO, CHC Industries, Inc.
MILTON M. MAGNUS, III, President, M&B Metal Products Company, Inc.
JOEL GOLDMAN, Executive Vice President, United Wire Hanger Corporation
JASON R. GOLDENBERG, Director of Operations, Cleaners Products Supply
DAVID MINDICH, President, Minda Supply Company
JAMES A. HERICKS, President, Dallas Tailor and Laundry Supply
BRUCE P. MALASHEVICH, President, Economic Consulting Services, LLC
PETER J. KIMBALL, Staff Economist, Economic Consulting Services, LLC

FREDERICK P. WAITE, Esquire
KIMBERLY R. YOUNG, Esquire
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Washington, D.C.

APPEARANCES: (cont'd.)

In Opposition to Relief:

On behalf of Shanghai Wells Hanger Company, Ltd.; Ningbo Xiangshan Foreign Trade Corporation; Shaoxing Dingli Metal Clothes Horse Company, Ltd; Wuhu Economic and Technical Development Zone Import and Export Corporation; and China Chamber of Commerce for Import and Export of Light Industrial Products & Arts-Crafts:

LINDA LO, Vice President, Wells Manufacturing USA, Inc.

JOHN REILLY, Director, International Trade Economics, Nathan Associations, Inc.

HAMILTON LOEB, Esquire

SCOTT FLICKER, Esquire

Paul, Hastings, Janofsky & Walker, LLP
Washington, D.C.

On behalf of Laidlaw Corporation:

CURT LIVERMORE, President and CEO, Laidlaw Corporation

BRENT MCWILLIAMS, Vice President, Marketing, Laidlaw Corporation

A. GARY SHILLING, Economic Consultant and President, A. Gary Shilling & Co., Inc.

PATRICK B. FAZZONE, Esquire

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P R O C E E D I N G S

(9:32 a.m.)

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2
3 CHAIRMAN OKUN: Good morning. On behalf of the
4 United States International Trade Commission, I welcome you
5 to this hearing on Investigation No. T-421-2, Certain Steel
6 Wire Garment Hangers from China.

7 The Commission instituted this investigation under
8 Section 421(b) of the Trade Act of 1974 to determine whether
9 certain steel wire garment hangers from China are being
10 imported into the United States in such increased quantities
11 or under such conditions as to cause or threaten to cause
12 market disruption to the domestic producers of like or
13 directly competitive products.

14 Schedules setting forth the presentation of this
15 hearing and testimony of witnesses are available at the
16 Secretary's desk. I understand the parties are aware of the
17 time allocations. Any questions regarding time allocations
18 should be directed to the Secretary.

19 As all written material will be entered in full in
20 the record, it need not be read to us at this time. All
21 witnesses must be sworn in by the Secretary before
22 presenting testimony. Finally, if you will be submitting
23 documents that contain information you wish classified as
24 business confidential, your requests should comply with
25 Commission Rule 201.6.

1 Madam Secretary, before we begin to hear testimony
2 in our case this morning, the Commission would like to note
3 a significant event for us. That event is the retirement of
4 our long-time director of the Office of Investigations, Lynn
5 Featherstone.

6 Lynn has been with the Commission since 1975,
7 joining the Office of Investigations in 1977. Over that
8 time, he served as investigator, supervisory investigator,
9 acting office director, and in 1988 became director of the
10 Office of Investigations and has led that office ever since.
11 He has been recognized with the Commissioners Award for
12 Exceptional Service in 1982 and the Presidential Rank of
13 Award for Meritorious Executives in 2001.

14 We will have other opportunities throughout this
15 month to sing Lynn's praises, but I thought it was
16 appropriate at this hearing with the parties before us to
17 also take a moment to note this because, as those counsel,
18 economists and parties who have appeared before the
19 Commission know, the Office of Investigations is an integral
20 part of our trade remedy investigations in the work they do,
21 and all of that stems from their leadership. That has been
22 Lynn for a very long time, and I know many of you know him
23 and wish him well, as we all do.

24 I would just note in the brief remarks I have this
25 morning that those traits that I associate with Lynn

1 Featherstone are his professionalism, his decency, his quiet
2 dignity and his leadership by example. He has occupied a
3 position that requires the ability to see all sides of an
4 issue and to be absolutely even-handed in considering all
5 the issues.

6 The one thing that has always given me pride as a
7 Commissioner is while parties may not like a particular vote
8 or an outcome of the Commission after they vote, I've always
9 heard from the parties who've spoken to me and have talked
10 about it that what they really appreciated was that they
11 felt they had a fair and objective procedure here.

12 I want all those folks who have said that to know
13 that in great part that comes from the leadership by Lynn
14 Featherstone. We are lucky that he leaves behind a team
15 that has been trained with his high standards of
16 objectivity, of digging into every issue and presenting a
17 very objective case for the Commissioners to consider. For
18 that we are very grateful, Lynn.

19 In short, he leads by example. His dedication and
20 positive outlook provide motivation, commitment and
21 enthusiasm. He will be greatly missed. I even managed to
22 pick up one of the folks from Investigations on my own
23 staff, Doug Corcoran, who's now serving on my staff. I
24 appreciate the training that he had from Lynn as well.

25 Thank you again, and let me see if my other

1 colleagues would like to add comments. Commissioner Bragg?

2 COMMISSIONER BRAGG: Thank you, Chairman Okun. I
3 don't know what else I can add to the Chairman's very
4 complete and excellent remarks. I would just say that as I,
5 too, will soon be leaving the Commission, it has been a true
6 pleasure to be able to have worked with Lynn Featherstone.
7 Since the day I first walked in the door eight years ago, he
8 has always been a true professional always ready to help me
9 and my staff with anything that we needed. He truly
10 exemplifies excellence in public service.

11 I could not have done my job without him, as well
12 as his very well-trained office and the rest of the
13 professionals in the Office of Investigations. I would also
14 like to thank you for the time you've served this Commission
15 and made all of us look so very good throughout our terms
16 here. Thank you very much. You will be missed.

17 CHAIRMAN OKUN: Commissioner Miller?

18 COMMISSIONER MILLER: Thank you. Lynn, I know you
19 don't want us to do this. We all know that, so we'll try to
20 not make it too painful.

21 The Commission was very lucky. You could have
22 chosen a government career in the National Park Service
23 instead of International Trade after your studies in
24 forestry and such, but you came here instead, and it was
25 great for the Commission that you did. Over these many

1 years you've seen so many of us Commissioners come and go,
2 but it truly is the career staff of people like you that
3 have held everything together here despite what may
4 transpire here.

5 We all have to do this now because we won't each
6 get an opportunity to later, even though we'd like to. When
7 I came into the Commission in 1996, we were faced with a
8 brand new mandate from the Congress in terms of figuring out
9 how to conduct these sunset investigations. You had been
10 here a long time, and you helped me as a brand new
11 Commissioner and a brand new chairman lead the Commission
12 through the process of figuring out how to do that.

13 We're still trying to figure it out, but I think
14 in many ways it went as smoothly as it could have because of
15 your leadership. I greatly appreciate that, having been
16 such a neophyte on this one when I came in.

17 I know, you know, I identify you more than
18 anything else with the sort of can do attitude. We come to
19 you with all sorts of crazy things. You've seen us do it a
20 lot of different ways. You know it can be done a lot of
21 different ways because it has been over time, so you're
22 always willing to help us figure out how to do that.

23 That said, you know, I don't know. I have to say
24 maybe at this point in time you're ready to leave because
25 you're tired of me in particular trying to steal your time

1 for our opinion writing time. I always try to steal that
2 Investigation side. Maybe it's compiling those Byrd
3 amendment lists. That could have done it, too.

4 Finally, we might be putting you out the door with
5 our proposed review of our procedures here at the
6 Commission. We want to look at everything, so your timing
7 in leaving may be absolutely as good as it could get for
8 you, but not for us.

9 Thank you very much, Lynn.

10 CHAIRMAN OKUN: Vice Chairman Hillman?

11 VICE CHAIRMAN HILLMAN: Thank you. I feel bad for
12 sort of the piling on here, but you much deserve all of the
13 praise that we could possibly bestow upon you.

14 I remember coming to the Commission, and the
15 Commission at the time had always had a reputation of having
16 highly, highly professional staff who were tremendously
17 dedicated to their work. I think a lot of that came from
18 you and really came from the attitude that you exhibited in
19 everything that you did. There was no investigation that
20 you couldn't ask Lynn, even as the head of Investigations,
21 about that he wouldn't know an awful lot about the
22 underlying investigation.

23 He was the most unflappable person as well. I
24 have never seen, no matter how bad the caseload got, no
25 matter how late the hours got, no matter how difficult the

1 staff reports, no matter how much trouble we had getting
2 data in a given case, Lynn never lost his cool. He was
3 always there guiding us, providing advice to everybody in
4 Investigations.

5 For his really calm demeanor and utter
6 professionalism, I would join my colleagues in thanking you
7 for your years and years of service to this Commission and
8 to this government. You have done a tremendous job. You're
9 the absolute exemplar of a dedicated, highly professional
10 public servant, and it's been a pleasure and an honor for me
11 to be here and to work with you.

12 We all I think wish you very well in your
13 retirement and are very grateful for all that you have done
14 for this Commission. Thank you.

15 CHAIRMAN OKUN: Commissioner Koplan?

16 COMMISSIONER KOPLAN: Thank you, Madam Chairman.
17 I join in everything my colleagues have said except for one
18 thing. I don't mind piling on, so let me do a little bit of
19 that.

20 The first time I met you, Lynn, I don't know
21 whether you'll remember this, but it was a Friday, and I was
22 told that Friday was dress down day, so I thought I would
23 come into the Commission and be part of the team. I walked
24 into the room, and each of you who was there to do the
25 briefing was dressed in suits. My opening shot was I think

1 I've just been set up. Then I found out that you all had a
2 meeting that was going to take place on Capitol Hill, and
3 otherwise you would have been similarly attired. That just
4 comes back to mind.

5 I sit here, and I listen to my colleagues, the
6 four of us. You've served four of us as chairman during our
7 tenure here. I know from my own standpoint that I wouldn't
8 have been able to get through that Steel case without your
9 leadership and the help that you gave to all of us in
10 getting through that and making it not only a professional
11 process, but a process that for me was an absolute delight
12 from beginning to end, and you know I've said that to you
13 privately, as well as publicly today.

14 You have made us look good. Maybe in my case it's
15 not always easy, but you have done that, and it was a thrill
16 to be involved in the process of your being the very first
17 nominee for the Presidential Merit Award that this agency
18 has ever asked for and actually received on our very first
19 attempt.

20 I hope that our association with you, our
21 friendship, will continue beyond your time here at the
22 Commission. I talked to you about that yesterday, as a
23 matter of fact. Maybe you were set up a little bit this
24 morning because I know you wouldn't come down here willingly
25 and listen to this, but we care for you very much. We

1 appreciate what you've done for us, and we wish you well in
2 the future. Thank you very much for everything.

3 CHAIRMAN OKUN: Thank you again. Lynn, I don't
4 think Debra actually had a question for you. I think
5 everything is in order, so you're free to return to packing
6 those boxes.

7 We will now again say thank you to all the counsel
8 and the parties here for allowing us to take this time,
9 which doesn't come out of your time obviously, but allowing
10 us to do this this morning and so that you could be part of
11 it as well.

12 With that, Madam Secretary, I believe we're ready
13 to turn to the opening statements.

14 (Applause.)

15 CHAIRMAN OKUN: Thank you.

16 MS. ABBOTT: Madam Chairman, a preliminary matter.
17 With your permission, we will add Thomas Bottini of Tighe,
18 Patton, Armstrong, Teasdale to the calendar on page 3.

19 CHAIRMAN OKUN: Without objection.

20 MS. ABBOTT: The opening statement in support of
21 relief will be made by Frederick P. Waite, Holland & Knight.

22 CHAIRMAN OKUN: Good morning, Mr. Waite.

23 MR. WAITE: Good morning, Madam Chairman, Madam
24 Vice Chairman, members of the Commission. My name is Fred
25 Waite with the law firm of Holland & Knight, and I am

1 appearing here today on behalf of the Petitioners in this
2 investigation.

3 This is only the second case to be considered
4 under Section 421 of our trade laws, but it is the first
5 involving a commodity product made by a number of producers
6 in both the United States and China. The product is one
7 with which we are all very familiar, steel wire garment
8 hangers. We see them almost every day, and, like many
9 commonplace things, we often take them for granted, yet
10 behind this product is the story of an American industry
11 that for years, indeed for decades, has responded to the
12 demand of the dry cleaning market for billions of hangers
13 with consistent quality and at competitive prices.

14 It is an industry that has innovated with new
15 types and shapes of hangers, with new coatings for improved
16 performance and with new colors and custom printing.
17 However, it is now an industry that is being materially
18 injured by rapidly increasing imports of garment hangers
19 from China. This conclusion is supported by every indicator
20 of economic performance used by this Commission in its
21 evaluation of injury to a domestic injury.

22 In 2002, Chinese imports surged by 70 percent
23 according to the Commission's staff report. Since this we
24 have shown these import figures are severely understated.
25 The real increase has been even greater and more damaging.

1 These imports have captured an increasing share of the U.S.
2 market because they are priced far below the domestic
3 products.

4 You will hear this morning from industry witnesses
5 about the impact that low-priced Chinese hangers have had on
6 the domestic industry. After operating at a profit during
7 most of the period of investigation, the U.S. hanger
8 industry has lost money as Chinese imports surged into the
9 market. In 2002, operating income fell by 340 percent, and
10 five of the six responding U.S. producers reported operating
11 losses.

12 These financial losses were not driven by costs of
13 production, which have in fact remained essentially
14 unchanged during the period of investigation, and they
15 actually fell in 2002. Rather, these losses can be directly
16 attributed to price depression caused by the influx of
17 Chinese hangers at prices below the domestic industry's cost
18 of production. The direct causal link is established by the
19 data on price underselling by Chinese imports and the
20 sharply declining trend in domestic prices of the types of
21 hangers where Chinese imports are concentrated.

22 Madam Chairman and members of the Commission, the
23 domestic industry needs effective relief now to remedy the
24 market disruption caused by these Chinese imports and to
25 prevent further disruption in the future. With effective

1 relief under Section 421, American hanger producers will be
2 able to make the necessary adjustments to regain their
3 competitiveness and participate successfully in the
4 marketplace.

5 Madam Chairman, with your indulgence, I would also
6 like to note that I have known Mr. Featherstone for more
7 years than I would like to remember, although they have been
8 wonderful experiences with him. For 25 years, I have known
9 and worked with Mr. Featherstone, and, as the Vice Chairman
10 noted, he is, in my opinion, a model civil servant.

11 He will certainly be missed by those of us who are
12 privileged to practice before this Commission, but I know
13 that you will agree that this institution is a stronger
14 place because of his having been here.

15 Thank you, Madam Chairman.

16 CHAIRMAN OKUN: Thank you, and thank you for those
17 remarks. We'll make sure that Lynn sees the transcript as
18 well.

19 Madam Secretary?

20 MS. ABBOTT: Opening remarks in opposition to
21 relief will be made by Hamilton Loeb, Paul, Hastings,
22 Janofsky & Walker, and Patrick Fazzone, Tighe, Patton,
23 Armstrong, Teasdale.

24 CHAIRMAN OKUN: Good morning, Mr. Loeb and Mr.
25 Fazzone.

1 MR. LOEB: Good morning, Madam Chairman and Vice
2 Chairman, members of the Commission. I'm Hamilton Loeb, as
3 you know from the record. My firm, Paul Hastings,
4 represents the Chinese Respondents in the case. Mr.
5 Fazzino, as you also know, represents Laidlaw, one of the
6 principal domestic producers.

7 We asked to present the opening together because
8 we wanted to emphasize to the Commission that the Commission
9 will not be hearing merely a Respondents' panel. It will be
10 hearing an opponents' panel. It will not merely be the
11 Chinese exports or the importers that testify against this
12 request for relief, but also one of the major domestic
13 producers who opposes the petition and opposes the request.
14 You'll hear about Laidlaw's views from Mr. Fazzino in a
15 minute.

16 In the two minutes I have, I want to make just two
17 quick points. First, apart from what you'll hear from the
18 Laidlaw witnesses, you'll also hear the results of the
19 economic analysis that John Reilly has done for the Chinese
20 Respondents. That analysis shows that from data in the
21 questionnaires and from the usual tools that the Commission
22 uses in analyzing data of that type, including variance
23 analysis, compass model, demonstrate that falling demand and
24 increasing costs are what has caused the U.S. producers'
25 condition.

1 That's not much of a surprise in an industry which
2 has had substantial excess capacity even in its busiest
3 times going back for more than a decade where demand has
4 been flat and where pricing has been flat, as I said, even
5 in the periods of best economic performance.

6 We said in our briefs that we regard this as a
7 rule number one case; that is, a case in which rule number
8 one of economics applies. On the one hand, demand is off.
9 On the other hand, costs are up. The normal result of that
10 is reduced volume, pressure on prices, reduced
11 profitability.

12 My second point is, and I know the Commission is
13 fully aware of this, this is the first real test of Section
14 421. As we see it, by the standards of prior Commission
15 decisions in the predecessor cases under, for example,
16 Section 406 there is clearly not enough here for an
17 affirmative market disruption finding, but we emphasize at
18 the outset that it's important that the Commission confirm
19 that under Section 421 the statutory standards will remain
20 reasonably and sufficiently demanding and will not be
21 triggered by, as we have here, a moderate increase in the
22 volume of imports achieving only a moderate market share at
23 best.

24 Let me turn it over to Mr. Fazzone.

25 MR. FAZZONE: Thank you very much. Thank you very

1 much, Ham.

2 Madam Chairman, Madam Vice Chairman, members of
3 the Commission, thank you very much. Again, my name is
4 Patrick Fazzone from the law firm Tighe, Patton, Armstrong,
5 Teasdale, and we represent Laidlaw Corporation, the second
6 biggest domestic producer of the product under
7 investigation.

8 Laidlaw Corporation strongly opposes the petition
9 for relief in this matter. As you will hear from the
10 Laidlaw witnesses who appear today, and they will include
11 the CEO and president of Laidlaw Corporation, as well as the
12 vice president for sales and marketing, what this case is
13 really about is the effect of economic conditions on a
14 cyclical industry and consumption patterns, the effective
15 consumption patterns on the domestic producers. There are
16 several other factors, but imports are not a significant
17 factor affecting this industry.

18 There are really three key issues that the
19 Commission will want to decide in this case that we think
20 are the critical issues. The first is are imports
21 increasing rapidly, and we believe that the evidence shows
22 conclusively that they are not, that they are really
23 increasing only modestly and that they're confined to
24 certain geographic areas and certain market segments. The
25 largest part of the surge in imports, the so-called surge in

1 2000 between 2001 and 2002, was actually accounted for by
2 domestic producers themselves.

3 This really points to the second key issue we
4 think the Commission will want to decide, and that is how
5 should the Commission view the domestic producers' own
6 imports in this investigation? Should it count domestic
7 producers' own imports when you analyze the import
8 penetration of the import? In this case we believe that the
9 Commission should not include domestic producers as part of
10 those imports that are alleged to be causing market
11 disruption.

12 Of course, a third issue, the key issue as far as
13 we're concerned, is are imports causing or are they a
14 significant cause of market disruption. As we've
15 demonstrated in our prehearing brief and as our testimony
16 will attest today, we believe they are not a significant
17 cause. Rather, the economic demand trends, consumption
18 patterns and several other factors which our witnesses will
19 cover today are the real culprits here behind the problems
20 suffered by the domestic industry.

21 Thank you very much for the opportunity to appear,
22 and we look forward to providing our presentation to you
23 today.

24 CHAIRMAN OKUN: Thank you. If we could now have
25 the first panel of witnesses come up to the table?

1 Madam Secretary, I understand all the witnesses
2 before us have been sworn?

3 MS. ABBOTT: That is correct, Madam Chairman.

4 CHAIRMAN OKUN: Very well then. Mr. Waite, you
5 may begin.

6 MR. WAITE: Thank you again, Madam Chairman. For
7 the record, my name is Fred Waite. With me today are
8 Kimberly Young, also of the firm of Holland & Knight, and
9 Bruce Malashevich and Peter Kimball of Economic Consulting
10 Services.

11 Madam Chairman, we have arranged our presentation
12 this morning into three separate parts. The first will be
13 the testimony of the three Petitioners representing the U.S.
14 hanger industry. They will be followed by three independent
15 distributors who sell hangers to the dry cleaning industry.
16 Finally, Mr. Malashevich and Mr. Kimball will address the
17 economic issues in this case.

18 Madam Chairman, with your permission, we would
19 like to circulate some samples of garment hangers to the
20 Commissioners. Each of these folders contains a different
21 type of garment hanger with samples from Chinese and
22 American producers. Is that permissible?

23 CHAIRMAN OKUN: That would be fine. If you could
24 give them to the Secretary to circulate and then to make
25 sure that the other side also has an opportunity to look at

1 them? Thank you.

2 MR. WAITE: With those preliminaries, our first
3 witness is Joel Goldman.

4 MR. GOLDMAN: Yes. Good morning, Madam Chairman.
5 My name is Joel Goldman, and I am executive vice president
6 of the United Wire Hanger Corporation.

7 United is a family owned business, which my two
8 brothers and I founded in March, 1962. When we started
9 operations, we had just 15 employees working in a small
10 rented building. Today, we own a 200,000 square foot
11 building in New Jersey, and at our peak we employed 235
12 people. Today, that number has fallen to 160.

13 I'm very pleased that Jason Goldenberg of Cleaners
14 Products could attend this hearing. Cleaners Products
15 bought hangers from us during our first week in business
16 back in 1962, and they're still a customer today. I would
17 also like to thank David Mindich of Minda Supply for
18 appearing here today. His company has also been a long-time
19 valued customer of United Wire Hanger.

20 Now I would like to take a few minutes to discuss
21 types of garment hangers, which are the subject of this
22 proceeding. I am sure that everyone here has handled a wire
23 garment hanger before on many occasions, but I'm equally
24 certain that few have considered the diversity of hanger
25 types or the characteristics which make this common product

1 a perfect form of fit to function.

2 We have prepared two displays of some of the types
3 of hangers that our industry makes. The first board has
4 samples of the six pricing products which the Commission has
5 used in its case. The first hanger is the 18 inch white
6 shirt hanger. Shirt hangers are painted usually white like
7 the one here. They are generally of a lighter gauge than
8 other types of hangers.

9 Incidentally, we have already seen in this case a
10 great deal about the Chinese hangers which are powder
11 coated. United uses a different process, electro-coated
12 painting, for our shirt hangers. I have samples of both
13 kinds of hangers, and I would invite you to examine them.

14 Next, there are four caped hangers. You can see
15 that some caped hangers are plain without any printing,
16 while others contain generic or custom printing. The paper
17 cape covers the hanger frame, providing some additional
18 stability and an area to pin garments, as well as some
19 advertising space.

20 The last hanger is the strut hanger. Strut
21 hangers have a paper tube that runs along the length of the
22 bottom of a hanger. The paper tube or strut is often coated
23 with a gripping material, such as latex, to prevent the
24 garment from slipping off the hanger.

25 Today, China is exporting all of these types of

1 hangers to the United States They started with shirt
2 hangers and then moved into caped hangers. Most recently,
3 they have been selling strut hangers. Their pricing is
4 unbelievably low.

5 We have also prepared a display of several types
6 of hangers that our industry makes. They include suit
7 hangers, multi-colored shirt hangers, custom print and
8 multi-colored caped hangers and industrial hangers. If you
9 have a chance, you may want to take a closer look at these
10 hangers. We are very proud of the quality and of the
11 variety of our industry's product.

12 Thank you.

13 MR. MAGNUS: Good morning. My name is Milton
14 Magnus, III, and I am president of M&B Metal Products
15 Company. M&B operates two hanger plants, one in Alabama and
16 the other in Virginia, and we also opened an operation in
17 Mexico three and a half years ago. We serve customers in
18 the dry cleaning and uniform rental industries throughout
19 the eastern half of the United States.

20 Normally I would consider myself a believer in
21 free trade. In other words, I prefer to let the market work
22 naturally without artificial interference, but I can tell
23 you right now that there is no way that M&B can compete with
24 Chinese hangers. The Chinese have shown time and again that
25 if we get close to their price they just lower their price

1 further. They don't seem to have a bottom to their pricing
2 structure.

3 M&B has loyal distributors that continue to
4 purchase the complete line of garment hangers from our
5 company, and we thank them, but we have had to significantly
6 reduce our prices in order to keep our customers competitive
7 with distributors who purchase Chinese hangers.

8 I truly believe that if nothing is done to remedy
9 the current situation, the U.S. hanger industry will be no
10 longer, and this will affect not only the people who work in
11 this industry, but also the companies that supply the hanger
12 industry.

13 M&B has operations in two small towns. We provide
14 employment to our people, as well as those who work for our
15 vendors. We desperately need relief from Chinese hangers.
16 The price pressure put on us by the Chinese has decreased
17 our selling price on shirt hangers by over \$4 per box, and
18 we are still nowhere near the selling price of Chinese
19 hangers. As their productions and shipments increase and
20 even more distributors begin purchasing Chinese hangers, we
21 will either be forced to sell our hangers at an even lower
22 cost, which we cannot do, or stop producing hangers
23 altogether.

24 We have some of our customers that prefer the
25 shape of our caped hanger over the Chinese so we keep a

1 supply of them on hand, but about a year ago we began
2 importing caped hangers because we can purchase them from
3 China cheaper than we can produce them. We have supplied
4 some of our customers with Chinese hangers, but absolutely
5 no one has specifically requested the Chinese caped hanger.

6 We make a good caped hanger at M&B. CHC, United,
7 Laidlaw and the Chinese make good caped hangers. I have
8 brought samples of the M&B caped hangers, as well as the
9 Chinese caped hangers. You can see these hangers are
10 comparable.

11 I don't believe anyone goes to a particular dry
12 cleaner because they have our hanger or a Chinese hanger.
13 I'm sure you will hear the Chinese gloat about the powder
14 coated shirt hangers. When the Chinese first began shipping
15 these hangers our customers had problems with them, but they
16 continued to purchase them because of the low price.
17 Although it is a nice looking hanger, again I don't believe
18 anyone goes to their dry cleaner because they use a powder
19 coated shirt hanger.

20 Although we have very loyal customers in the dry
21 cleaning industry, we have found that price plays a much
22 higher value than past loyalty. One of our major customers
23 and a close personal friend used to purchase 95 percent of
24 their hangers from us. This customer no longer purchases
25 plain caped hangers from M&B and very few shirt hangers from

1 us. They have switched almost entirely to the Chinese
2 hangers on these items.

3 Our customer has given us his prices on the
4 Chinese hangers to see if we can be competitive, but there
5 is too much difference between our cost and the Chinese
6 price. Overall, the selling price for the types of hangers
7 that are being imported from China has decreased more than
8 25 percent. That is not a coincidence or the result of any
9 economic downturn.

10 M&B has been in my family since the mid 1940s when
11 my grandfather, Milton Sr., started the company. When he
12 died in 1965, my father, Milton Jr., became president of
13 M&B. In 1988, my father stepped down, and I became
14 president. My father made sure that I learned the business
15 from the ground up. Prior to graduating from college, I
16 worked in the plant doing everything from manufacturing
17 hangers to loading trucks.

18 In all, I've been in the garment hanger business
19 for over 28 years. My dream is that my son will one day
20 carry on the family tradition and take over the helm when I
21 retire. With an effective remedy in this case, my dream can
22 become a reality.

23 Thank you for your time and agreeing to listen to
24 our case.

25 MR. ROBY: Good morning, Madam Chairman. My name

1 is John Roby, and I'm the president and chief executive
2 officer of CHC Industries. I'm relatively new to the
3 garment hanger industry, having joined CHC a year and a half
4 ago. From what you've already seen in this investigation, I
5 think you would agree I picked an interesting time to get
6 involved in this business.

7 Prior to joining CHC, I was vice president for
8 global operations at Johnson & Johnson and also spent 13
9 years at General Electric working in various divisions. I
10 ended my stint at GE as the manager of manufacturing
11 logistics for GE Plastics.

12 CHC Industries is the largest producer of steel
13 wire garment hangers in the United States. We have
14 operations in Florida, Alabama, Texas, Missouri and
15 Maryland. Due to the geographic placement of our plants, we
16 can and do serve customers from the east coast to the west
17 coast and from the Gulf to the Great Lakes.

18 However, our markets throughout the United States
19 have been disrupted by the surge of imports from China. We
20 have lost customers to aggressive marketing. We've had to
21 lower our prices in order to hold onto our many customers in
22 the face of significant underselling by Chinese imports.

23 We have also been forced to make serious
24 unpleasant changes at CHC as a direct consequence of rapidly
25 increasing low-priced imports from China. We have

1 implemented difficult organizational and structural changes.
2 We have made major changes in senior management, including
3 the plant managers at each of our facilities. We closed a
4 plant in California in November 2001 and another plant in
5 Ohio just last month.

6 In 2002, CHC acquired Midwest Hanger, another U.S.
7 producer. We closed one of its two plants and expanded and
8 upgraded the other. Our actions to date have reduced the
9 industry's capacity by one billion hangers. These have been
10 dramatic steps, but we did them to respond to the best of
11 our ability and in order to stay in business. These efforts
12 will have been in vain if our industry does not receive
13 meaningful relief from increasing imports from Chinese
14 garment hangers.

15 I would like to address several claims made by the
16 Respondents and provide the Commission my views on this
17 issue. The Respondents claim that falling prices should be
18 attributed to economic downturn and competition amongst
19 domestic suppliers. While the economy does have an effect,
20 it has not had the massive effect the Respondents claim.

21 Every company here today has seen the economic
22 cycles over the years and survived these cycles. The
23 Respondents also suggest that the steel wire garment hanger
24 market is a cyclical business. I've worked in cyclical
25 businesses. GE power systems and aircraft engines are

1 cyclical businesses. Orders can vary 50, 60, 70 percent a
2 year. Hangers are not a cyclical business. There are
3 modest variations year to year, but not wild swings in
4 demand. To suggest the economic cycle is different from
5 historical ones is just plain wrong.

6 The Respondents also claim that domestic hanger
7 producers are lowering prices to gain market share and thus,
8 by their actions, causing prices in the market to drop. The
9 Commission data on average selling prices speaks volumes on
10 this claim. During the period prior to Chinese imports into
11 the U.S. market, the prices of hangers showed a small amount
12 of variation. After the Chinese entered the market prices
13 dropped and in some cases by more than 25 percent. To
14 suggest that the domestic industry is fighting for market
15 share is ridiculous. The data speaks for itself. The
16 Chinese imports have caused U.S. producers to lower prices
17 to retain business period.

18 Respondents make a big deal about the quality of
19 Chinese hangers; that its powder coated shirt hangers are
20 better than painted hangers, but quality is not only a
21 function of paint. Shape consistency, hanger strength,
22 delivery and availability, packaging and pallet sizing all
23 go together to determine the overall quality of products and
24 services provided.

25 The Respondents suggest that the domestic hanger

1 companies should all convert to powder coating, implying
2 that the domestic hangers are rusty, dirty and useless
3 compared to the Chinese. The samples you have before you of
4 domestic and Chinese shirt hangers will show these claims of
5 inferior quality are without merit.

6 CHC has continued to invest and improve its
7 process of painting hangers. The recent acquisition of
8 Midwest Hanger Company allowed us to develop a paint process
9 that rivals any competition, Chinese or otherwise.
10 Nevertheless, in the vast majority of instances where CHC
11 matches the Chinese price we keep the business. The fact of
12 the matter is this. It is all about price, not paint.

13 Respondents claim the uniform rental market is
14 protected reserve for the U.S. producers, and it has not
15 been and cannot be penetrated by the Chinese imports. You
16 should also have samples of industrial or uniform rental
17 hangers that I brought with me today. I think you will all
18 agree they look like hangers. There's no magic here. This
19 is not a closed market, and I am at a loss to understand how
20 anyone can make the claim that a uniform rental hanger
21 market is substantially different than other hanger markets.

22 The Respondents have also suggested that steel
23 prices are a significant cause of poor performance of U.S.
24 hanger companies. This Commission has dealt directly with
25 the history of steel rod prices. Prices go up. Prices go

1 down. The cycle is well documented. So are the effects on
2 hanger prices. Historically, hanger companies have
3 recovered at least in part the increase in steel rod prices.
4 They've also given up price when steel prices drop.

5 The latest round of steel price increases serves
6 to substantiate the impact that Chinese producers have had
7 on the market. The dumping duties levied this past year on
8 wire rod had a direct impact on steel prices to CHC. Cost
9 went up. CHC announced a modest increase in hanger prices
10 to offset a part of the steel cost increase, but this price
11 increase did not take effect to the direct aggressive sales
12 and marketing of the Respondents.

13 Chinese hanger prices were quoted to almost every
14 customer of CHC. These prices were lower than the prices
15 CHC had charged prior to the steel increase. Many customers
16 responded by moving their business to Chinese imports, and
17 CHC lost significant volume in July and August of last year.
18 As a result, CHC had no choice but to match lower prices in
19 order to retain business.

20 Perhaps my key point on this topic is when you
21 look at the period of the investigation as a whole, rod
22 prices in 2002 were significantly lower than 1997. *Purchase*
23 *magazine's* price index shows average steel prices declined
24 from \$329 per ton in 1997 to \$301 per ton in 2002. In 1997,

1 CHC made a reasonable profit in our business, but we lost
2 money in 2002. The reason is Chinese imports have forced
3 hanger prices down at a faster rate than steel prices and
4 now are driving them still lower.

5 The Respondents claim that imported Chinese
6 hangers are regionally focused. I would like to understand
7 their definition of regional. They claimed to only be
8 present on the east coast, west coast, Gulf coast and
9 Chicago. Well, that covers about 90 percent of the
10 population of the United States so I guess that could be
11 called regional, a very large region.

12 They also claim transportation costs limit the
13 reach of these products. This is just plain false. The
14 fact of the matter is you can buy Chinese hangers in Kansas
15 City today if you'd like and pay the same price as any other
16 location in the United States.

17 I think it's also important to state that all it
18 takes is one small distributor in any market to undersell,
19 and the market prices move. I've seen this over and over
20 again. A small distributor gets a shipment of Chinese
21 hangers and markets them aggressively. Pressure to respond
22 then forces our customer prices down, and in turn we must
23 lower our price.

24 A small amount of low-priced Chinese hangers can
25 have a dramatic impact on the overall market. For this

1 reason, amongst others, even what some might view as a
2 modest Chinese market share easily translates into a market
3 wide impact on price.

4 I've read the Respondents' submission that U.S.
5 producers' production cost has gone up and that this is the
6 cause of our industry's financial problems. CHC's data
7 shows a different story. The fact of the matter is CHC's
8 production costs have decreased in 2002 in spite of an
9 increase in steel costs. We have aggressively restructured
10 the company and implemented programs to drive cost
11 productivity. CHC's results are world class by any measure.
12 To suggest that costs are going up at CHC is inaccurate. To
13 suggest that CHC sat idly by is also incorrect.

14 Finally, I would like to comment on the
15 Respondents' claim that the only data relevant are direct
16 sales of Chinese hangers; that is, sales of Chinese hangers
17 that are not made through U.S. producers. The Respondents
18 suggest that the Petitioners are only try to play catch-up
19 with Laidlaw because Laidlaw's strategic plan is the
20 business model all others are moving towards. Thus,
21 Respondents argue hangers purchased by U.S. producers have
22 no impact on the market.

23 First let me say the purchase of Chinese hangers
24 by U.S. producers is a survival strategy, not some well
25 thought out masterful plan. Most U.S. companies have

1 purchased these hangers to just stay in the game. In the
2 absence of these purchases, a worse fate awaited. No sales
3 at all.

4 If the Chinese hanger producers were not
5 underselling, I suggest very few, if any, Chinese hangers
6 would be purchased by U.S. producers. This data is very
7 relevant and only serves to amplify the gravity of our
8 situation facing the U.S. producers.

9 Thank you very much.

10 MR. GOLDENBERG: Good morning, Madam Chairman. My
11 name is Jason Goldenberg. I'm the director of operations
12 for Cleaners Products Supply. I've been with Cleaners
13 Products for almost 13 years now.

14 Cleaners Products is a family owned business
15 located in Sunnyside, New York. We supply a full range of
16 products, including hangers, to the dry cleaning market. We
17 also have a related company, Statum Supply, in Philadelphia,
18 Pennsylvania.

19 We distribute cleaning supplies to more than 2,700
20 local dry cleaners in New York, New Jersey, Pennsylvania,
21 Delaware and Connecticut. We buy hangers from each of the
22 three Petitioners, who have been our regular suppliers for
23 more than eight years. During this time, we have relied on
24 these companies to provide us with a dependable supply of
25 quality hangers at competitive prices.

1 Over the last two years, the distribution business
2 has been facing some tough times. In the last three months
3 alone, three major distributors have gone out of business
4 due to pricing pressure -- Cleaner Sales in New York, USA
5 Clean in Michigan, Pennsylvania and Virginia, and Jock Danay
6 Company in Massachusetts.

7 The clear cause of this price pressure is the
8 increasing supply of hangers from China. We compete on a
9 daily basis with other distributors who are buying Chinese
10 hangers. We bought Chinese hangers for a brief period last
11 year, but we don't buy directly from China or from the
12 Chinese importers today.

13 Not only have our U.S. suppliers been forced to
14 drop the price on their own hangers, but several of them
15 have begun importing Chinese hangers themselves. For them,
16 it means that they can continue to supply a full range of
17 hangers to their customers. For us, it means that we can
18 continue to buy mostly domestic hangers and still compete
19 with the distributors who are sourcing entirely or primarily
20 from China.

21 Compared to the prices in 1997, the price of a
22 shirt hanger has fallen by more than 20 percent, and the
23 price for a caped hanger has dropped by over 25 percent.
24 When you consider that one-third of our business is based on
25 hanger sales, this deflation has made it very difficult to

1 compete.

2 Cleaners Products has also seen a real change in
3 the product mix. This has been the direct result of an
4 increase in casual wear. Casual dress has been around since
5 the early 1990s, and it has been good for our business. We
6 have seen a decline in the sale of some hangers, but an
7 increase in strut and shirt hangers. For example, we are
8 seeing a large increase in drying cleaning khaki pants and
9 polo shirts.

10 This change in product mix has not resulted in a
11 change in our total volume of hangers. As a distributor, we
12 supply thousands of different products to the dry cleaning
13 market. In fact, I publish a monthly sales flyer that lists
14 our current pricing on the top 105 items that we sell,
15 including wire hangers. I can tell you that we regularly
16 increase our prices on all of these products with the sole
17 exception of hangers. We haven't been able to raise the
18 price of hangers due to the presence of low-priced Chinese
19 hangers in the marketplace.

20 I would also note that historically our business
21 has actually done better in down economies. People buy
22 fewer clothes and take better care of the ones that they
23 have. That means more frequent professional cleaning.
24 However, we are not doing better in this recession. What's
25 different now? Loss of imports and low-priced Chinese

1 hangers.

2 Cleaners Products buys a lot of hangers on a daily
3 basis. We regularly receive direct solicitations from
4 importers selling Chinese hangers. In my opinion, Chinese
5 and American hangers are interchangeable in terms of
6 quality, reliability and delivery. The only advantage that
7 the Chinese hangers have over the American hangers is price.

8 Thank you very much.

9 MR. HERICKS: Good morning. My name is Jim
10 Hericks, and I'm president of Dallas Tailor and Laundry
11 Supply, a company that has been in operation since 1918. I
12 personally have been in the dry cleaning distribution
13 business since 1993.

14 My wife and I have been the owners of Dallas
15 Tailor and two other related companies since 1997. In
16 total, we serve more than 3,000 customers in Texas,
17 Louisiana, Mississippi, Arkansas and southern Oklahoma. We
18 operate three warehouses in Texas, one in Louisiana, one in
19 Arkansas.

20 Although we buy and sell more than 9,000 different
21 dry cleaning and laundry items, garment hangers are our most
22 significant single item in our business, constituting 29
23 percent of our gross dollar volume. Most of our hangers are
24 supplied by two of the three Petitioners in this case, CHC
25 and M&B, but we also have purchased garment hangers from

1 China. We bought a small quantity of Chinese hangers in
2 1999. We increased our purchases in 2000 because our
3 competition was selling the cheaper imports.

4 In 2001, in response to increasing imports from
5 China at very low prices, the domestic hanger companies
6 began making price concessions in order to maintain volume.
7 Our purchases from China have significantly decreased since.
8 Nevertheless, we still receive frequent offers to buy
9 Chinese hangers, especially shirt and cape hangers. The
10 latest addition to the market from China is the strut
11 hanger, although it is difficult to see how they can ship
12 strut hangers economically since they are packaged only 250
13 to a box and the box itself is twice as big as a shirt
14 hanger box.

15 Other distributors are continuing to increase
16 their purchases of Chinese hangers. We have a relatively
17 new competitor in the Houston market that sells most
18 exclusively Chinese hangers. This has had a devastating
19 impact on our business in the market area due to the
20 dramatic drop of the street price of these items.

21 Because our competitor sells its hangers at the
22 low Chinese price we have lost market share, even with the
23 substantial price concessions given to us by our U.S.
24 suppliers. Overall, since 1999 our average street price on
25 plain cape and shirt hangers has decreased 26 percent in the

1 Texas market.

2 More specifically, in the Houston market we have
3 seen shirt hangers in 1999 sell for an average street price
4 of \$18.67. In the fourth quarter of 2002, the same shirt
5 hangers are selling for an average of \$13.47. I have copies
6 of competitors' invoices where they have sold Chinese shirt
7 hangers for \$11.95.

8 As I stated before, with 29 percent of our revenue
9 in garment hangers and with a 26 percent drop in gross
10 revenue on these items, there's been a substantial impact on
11 our operation. In our business, the price of the hanger is
12 the first and most important consideration when we buy.
13 This is because our customers are also looking for the
14 lowest price. We also consider availability because we have
15 to have a consistent and reliable supply of the types of
16 hangers that our customers require.

17 We also consider the paint quality, the
18 consistency of shape and the strength of the wire. Some
19 customers like the powder coated that is available in the
20 Chinese hangers, but I can tell you that our customers will
21 not pay more for a hanger just because it is powder coated.
22 Basically, if it will hang a shirt and looks good, it will
23 satisfy most all customers.

24 As a wholesale distributor, we are in the market
25 every day buying hangers, and price is the key. Our U.S.

1 suppliers have tried to keep up with the Chinese in their
2 low pricing, but the Chinese seem to be able to continuously
3 drop their prices. Last month we received an unsolicited
4 quote to purchase 14½ capes for \$15.50, which is
5 significantly lower than what we are paying U.S. suppliers.
6 From what I can see as a distributor, supply and demand are
7 out of balance.

8 Thank you.

9 MR. MINDICH: Good morning, Commissioners. My
10 name is David Mindich, and I am president of Minda Supply
11 Company. We are a distributor of supplies in the fabric
12 care industry.

13 My father and others started the company back in
14 1968, and now my brothers and I run the business. We are
15 located in Haverstraw, New York. We also have a location at
16 Fallsington, Pennsylvania. We serve approximately 3,000 dry
17 cleaners and other customers in New York, Pennsylvania, New
18 Jersey, Massachusetts, Connecticut, Delaware and Virginia.

19 We are a long-time customer of M&B Metal Products
20 and United Wire Hanger Corporation, two of the Petitioners
21 in this case. However, we also purchase wire hangers from
22 China. All of these hangers, whether foreign or domestic,
23 are commingled in our warehouse.

24 After receiving and completing the Commissioners'
25 purchaser questionnaire and thinking about the questions

1 that were asked, I sat down and wrote a letter to Joel
2 Goldman of United Wire Hanger reflecting on the current
3 situation in the United States hanger market. Joel asked me
4 to come and speak to you today and to read a portion of my
5 letter. I, of course, agreed.

6 The following excerpts are from my letter to Joel
7 dated December 6, 2002, and I understand that the entire
8 letter will be submitted to the Commission with the
9 Petitioners' post-hearing brief.

10 "Dear Joel, Minda Supply Company and United Wire
11 Hanger have been dedicated business partners for the better
12 part of 30 years. I personally have enjoyed the
13 relationship for the last 15 years. Over the years, as in
14 any relationship, we've experienced good times, as well as
15 bad times. However, we were always able to work out our
16 differences, and our respective businesses always continued
17 to grow.

18 "Unfortunately, during the last few years this
19 arrangement has been altered. We are all being squeezed for
20 better prices from our customers due to competition from
21 imported hangers. I have observed that these hangers have
22 steadily decreased in price several dozens of times in just
23 the past year. Each time, as you have lowered your price to
24 compete, the importers have lowered their prices in order to
25 increase market share. The end result is that prices keep

1 going down in a deflationary trend.

2 "An outside observer might be under the impression
3 that Minda Supply Company and other domestic distributors
4 should be elated about lower prices. After all, we now have
5 the ability to buy hangers at a fraction of what they were
6 just a few years ago. As we both know, this is not the
7 case. The distribution business is ultimately at risk
8 similar to that of the manufacturer. We must lower our
9 prices to keep competitive in the market.

10 "I receive calls every day from new companies
11 claiming to be importers of Chinese hangers. In many cases,
12 these are new distributors offering imported products to
13 customers at cost just to gain market share and unload their
14 overabundance of hangers that are sitting in their
15 warehouse.

16 "It has become apparent to me in conversations
17 with Chinese companies that hangers are just being dumped
18 into this market. They all claim that they are losing
19 money. However, the supply keeps getting larger; the price
20 keeps going lower. I have noticed within the last six
21 months this issue goes way beyond just that of hanger
22 manufacturers. It is my personal belief that the entire dry
23 cleaning and laundry industry is being adversely affected by
24 this import situation.

25 "Hangers are the most commonly used products in

1 the fabric care industry. However, we represent over 50
2 other manufacturers that serve the industry. The hangers
3 have always been and will be the leaders of our industry,
4 but due to increased competition and the addition of new
5 players from Chinese competition many distributors and
6 vendors are now losing money. In addition, many of these
7 companies are going out of business.

8 "I am very aware that some of these issues need to
9 be blamed on the economy. It all seems to be changing on a
10 daily basis. No one can predict the future, but is it
11 possible that all hangers will eventually be made in China?
12 I'm very disheartened by the current state and hope
13 something will be done to save our industry.

14 "I personally employ 60 families, in addition to
15 my own. These people, as do tens of thousands of others,
16 depend on this industry for their future. On a personal
17 level, I would like to add that it affects me deeply that I
18 have been forced to make these changes in our business
19 relationship. Please understand on a professional level I
20 have had no other choice.

21 "I do look forward to our continuing business
22 partnership, and I'm hopeful that our government will do
23 their part and make this possible. Sincerely, David
24 Mindich."

25 As I stated in my letter, we represent over 50

1 manufacturers that serve the dry cleaning industry. In
2 addition to hangers, we sell chemicals, packaging products,
3 pins, staples, tags and many other supplies to the dry
4 cleaning market.

5 Regardless of the economic conditions, the prices
6 of these other products increase year in and year out,
7 including the previous two years. Why aren't hanger prices
8 also increasing? All of these products do go to the same
9 industry. The reason, in my opinion, is that Chinese
10 imports have driven down the price of hangers.

11 Thank you.

12 MR. WAITE: Madam Chairman, may I ask for a brief
13 pause so we can set up the video projector?

14 CHAIRMAN OKUN: Okay.

15 MR. WAITE: Thank you.

16 CHAIRMAN OKUN: Is it ready to go?

17 MR. MALASHEVICH: Good morning, Madam Chairman,
18 members of the Commission. I am Bruce Malashevich,
19 president of Economic Consulting Services, and I join Mr.
20 Waite's remarks and appreciation of Mr. Featherstone's
21 service as well certainly.

22 There's no question that imports of certain steel
23 wire garment hangers are significant and increasing rapidly,
24 according to the questionnaire record in this case, and I
25 call your attention to my Public Exhibit No. 1. The

1 increase between the interim periods 2001 and 2002 was
2 particularly remarkable. Recent imports not immediately
3 shipped have been placed into importers' inventories, and
4 the volume of these inventories is increasing rapidly as
5 well.

6 I also emphasize that despite the very laudable
7 efforts of staff, which I commend, the import volumes
8 displayed on my Exhibit 1 are understated due to the absence
9 of data from many known importers. Our conservative
10 estimate of total imports for interim 2002 is substantially
11 higher than the quantities reported in the staff report or
12 in the questionnaire responses.

13 There likewise is little question that the
14 domestic hanger industry has been substantially harmed by
15 the surge in imports from China. The rapidly growing volume
16 and low prices of imports have produced adverse changes in
17 almost every indicator of economic performance typically
18 addressed by the Commission. The production capacity
19 numbers for the industry clearly show material injury
20 rapidly developing in the later years of the POI as imports
21 from China surged. U.S. domestic shipments likewise have
22 suffered.

23 As a result of the surge of imports from China and
24 the associated reduction in domestic production capacity,
25 employment in the domestic industry has suffered, along with

1 the aggregate hours worked, total wages paid, all of which
2 are documented in the APO version of the report. The
3 domestic industry has suffered the most severe injury in its
4 financial performance again due to the surge in imports from
5 China sold at very low prices.

6 The domestic injury began the POI as a reasonably
7 profitable one considering its maturity. However, in 2001
8 and the interim period of 2002, there was an obviously sharp
9 decline in financial performance as imports of wire hangers
10 from China increased very rapidly and seized significant
11 additional market share at startlingly low prices.

12 The inability of domestic producers to make a
13 reasonable profit since 1999 is not limited, but is
14 widespread through the industry. The prehearing report
15 shows that imports from China generally undersold domestic
16 producers, but some of the most direct evidence of price
17 depression caused by imports from China is provided in
18 Section 7.B of Petitioners' prehearing brief.

19 The data on price underselling by imports from
20 China and the sharply declining trend in domestic prices for
21 hanger types on which imports from China have focused leave
22 no doubt about the causal link between the imports and
23 financial losses being experienced by the domestic industry
24 at large. These pricing data must be evaluated within the
25 relevant conditions of competition in the U.S. market.

1 Steel wire garment hangers are a commodity product
2 sold on the basis of price, as you heard from the earlier
3 testimony. Both the distributor market segment and the
4 uniform rental segment are characterized by the presence of
5 a limited number of major customers. This combination of a
6 commodity product and a concentration of purchasing power
7 yields a very price sensitive market that reacts
8 dramatically to an increased availability of lower priced
9 supply.

10 As the responses to the purchasers' questionnaires
11 make clear, the domestic industry and the Chinese industry
12 are able to make the same types of hangers for use in the
13 same applications. There could be no dispute about this.
14 Even the historical advantages and technical support and
15 timeliness of delivery that have helped domestic producers
16 resist the onslaught of imports from China are being more
17 than offset by the large and increasing inventories of low-
18 priced hangers being held in U.S. warehouses by importers.
19 This is because price again is the primary basis on which
20 purchasing decisions are made, and imports from China
21 clearly have the advantage in this regard.

22 Beyond the material injury already caused, every
23 pertinent factor that the Commission typically considers in
24 the case of the domestic industry is threatened with further
25 material injury by the imports from China. The domestic

1 industry certainly is vulnerable, as reflected most notably
2 in its current financial condition and distressed pricing.

3 The Chinese wire hanger production capacity is
4 increasing, and we believe the Commission's survey does not
5 capture a large number of Chinese producers in fact
6 operating in that country. Chinese exports are focused on
7 the U.S. market, and the projections of exports in 2003
8 foretell dramatic future growth in exports to the U.S.
9 market. U.S. importer inventories are rising rapidly, all
10 of which are documented in the prehearing report.

11 As the lost revenue and lost sales allegations
12 show, the domestic industry has incurred a widespread loss
13 of business with dozens of customers. Importers are
14 maintaining larger inventories of garment hangers from China
15 in their warehouses. A large portion of these inventories
16 are not earmarked for existing customers, but rather are
17 available for sales to new customers threatening to continue
18 the rapid growth and penetration of the imports.

19 The vast majority of the domestic industry's lost
20 sales and revenue do not result from dissatisfaction with
21 the quality, product consistency or other features of the
22 domestic hanger industry. Purchasers simply responded to
23 the influx of Chinese hangers in the market at prices the
24 domestic industry could not match and made the decision to
25 switch suppliers, in some cases wholesale. Many more

1 purchasers will make the switch in the future, exacerbating
2 an already severe situation for the domestic producers
3 unless relief is granted.

4 I'm accompanied today by my colleague, Peter
5 Kimball, staff economist with our firm, who will make
6 certain remarks in rebuttal to the opposing party's
7 arguments.

8 Thank you.

9 MR. KIMBALL: Good morning, Madam Chairman, Madam
10 Vice Chairman and members of the Commission.

11 The basic thrust of Respondents' argument is that
12 imports are low, imports have not increased significantly or
13 rapidly, and imports have not caused material injury.
14 Laidlaw's prehearing brief claims that the relevant import
15 volumes in the prehearing staff report at Table 7 are too
16 high. Just the opposite is true.

17 Petitioners document in Exhibit A-1 of their
18 prehearing brief, which you should now have before you, that
19 many known importers did not submit data to the ITC. Our
20 Exhibit A-1 estimated these companies' imports in January to
21 September 2002 resulting in a substantially higher import
22 volume.

23 Contrary to Respondents' claim, there is every
24 reason to include imports of Chinese hangers by domestic
25 producers in the total. Given the choice between losing a

1 sale entirely to import competition and making the sale at a
2 lower price by reselling imported hangers, the domestic
3 producers in some cases have been forced to choose the more
4 financially viable route, one that permits at least short-
5 term survival against increasing imports from China while
6 also depressing prices for other U.S. producers.

7 Therefore, imports of steel wire garment hangers
8 from China by the domestic producers should be included in
9 the discussion of injury because they are causing injury,
10 and they provide a more accurate representation of the
11 penetration of imports from China in the U.S. market.

12 Respondents claim that the declining demand has
13 caused lower prices and, thus, injury to the domestic
14 industry. As it exists, the record shows very modest
15 changes in demand year to year and over the POI as a whole.
16 If the Commission accepts Petitioners' calculations to
17 arrive at a more complete count of imports from China, then
18 apparent consumption in January to September 2002 on an
19 annualized basis was only modestly lower than at the
20 beginning of the POI.

21 Regardless of how the Commission chooses to
22 measure apparent consumption and demand, it should be clear
23 that rapidly increasing quantities of low-priced imports
24 from China are a far more significant cause of price
25 depression than any observed decline in demand.

1 Laidlaw's regression analysis, which purports to
2 show otherwise, is fundamentally flawed in various ways.
3 For example, it appears to omit a significant portion of
4 imports from China. The market share held by imports from
5 China, as suggested by the questionnaire responses, is much
6 larger than that mentioned in the discussion of the
7 regression. If the regression is only using a portion of
8 imports then, of course it will assign less importance to
9 those imports.

10 Second, the regression considers the volume of the
11 domestic producers' sales to be an independent variable
12 when, as Petitioners have repeatedly pointed out, sales
13 volumes are almost entirely dependent on price in this
14 market.

15 Third, Laidlaw's regression analysis fails to
16 explain differences in pricing behavior among Products 1
17 through 6, which are clearly associated with differences in
18 Chinese market penetration, as shown in Exhibit 7-2 of
19 Petitioners' prehearing brief, which you now have before
20 you. Thus, Laidlaw's regression analysis fails to provide
21 convincing evidence against imports otherwise demonstrable
22 effect on prices.

23 The Chinese producers' prehearing brief states on
24 pages 34 to 36 that demand alone was responsible for price
25 declines in the domestic industry. It supports this

1 statement with a comparison of price declines for the six
2 products surveyed by the Commission with price declines in
3 all other products from 2001 to interim 2002.

4 Respondents state that because the price trends
5 are similar and imports compete primarily with Products 1
6 through 6, demand must be the prominent cause of industry
7 wide price declines. This analysis is seriously flawed.
8 First, the trends compared were only between 2001 and 2002.
9 Using Respondents' numbers presented in Exhibit 3 of their
10 prehearing brief with 1999 as the base year instead yields
11 price declines in the six pricing products that are very
12 different than those shown for all other products.

13 The analysis in the Chinese producers' brief uses
14 2001 as the base period because this is the only comparison
15 that even slightly supports their case. However, even using
16 their base period the change in demand is extremely small.
17 Exhibit 4-4 from Petitioners' prehearing brief, which you
18 now have before you, shows that demand changed little
19 between interim 2001 and 2002. Moreover, adjusting for
20 under counted imports in 2002 actually results in a change
21 in demand in the opposite direction. Thus, Respondents are
22 attributing price declines to reduced demand between periods
23 when there was no reduction in demand.

24 The difference in domestic price trends between
25 Products 1 through 6 and all other subject hangers also

1 enables us to refute another one of Laidlaw's arguments that
2 price wars between domestic producers caused price
3 reductions and consequent financial deterioration. The
4 simple fact that prices of the six pricing products moved
5 very differently than the other products over the POI shows
6 that domestic producers were forced to adjust their prices
7 more frequently in response to pressure from imports from
8 China.

9 We will address this issue further in Petitioners'
10 post-hearing brief, but I call the Commission's attention
11 once again to Exhibit 7-2 of Petitioners' prehearing brief
12 now before you. That exhibit most clearly illustrates the
13 fact that even among Products 1 through 6, variation in
14 price pressures is closely linked to the differences in
15 market penetration of imports from China.

16 Respondents also have attempted to ascribe the
17 domestic industry's financial injury solely to cost
18 increases. What does the data actually show? Please see
19 Public Exhibit 3. The public prehearing staff report at
20 page 1-26 shows that the average unit COGS in interim 2002
21 is actually below or within one percent of COGS in every
22 other period except fiscal year 1999/2000.

23 With respect to 1999/2000, the interim 2002 COGS
24 is 3.6 percent higher, which is hardly a major increase.
25 Using any period other than fiscal year 1999/2000 to compare

1 to interim 2002 does not support Laidlaw's argument of
2 rising costs being a dominant factor in explaining the
3 domestic industry's terrible financial losses.

4 The facts, as shown in staff's variance analysis,
5 are that the domestic industry's steep decline in
6 profitability, which is closely correlated in time with the
7 rapidly increasing imports from China at very low prices,
8 was caused mostly by reductions in price, not increased
9 costs.

10 The variance analysis on page 1-29 of the public
11 staff report should put any cost argument to rest. Please
12 see Public Exhibit 4. The report discusses the salient
13 comparisons, 1997/1998 to 2001/2002, and the interim 2001
14 and 2002 periods, and it shows the clear picture. Of the
15 \$7.4 million decline in operating income from the first
16 fiscal year of the POI to the last, \$4 million, or more than
17 half, is attributable to unfavorable price trends; in other
18 words, import price depression.

19 Even more striking is the \$3.6 million decline in
20 operating income between the two interim periods when the
21 volume and market share of imports from China rose sharply.
22 The staff report finds a staggering unfavorable price
23 variance of \$7 million between these periods. That is more
24 than twice the amount of the net reduction in operating
25 income and overwhelms a positive cost variance related to

1 declining costs.

2 Also noteworthy are those important facts not
3 addressed in Respondents' prehearing brief. The most
4 significant of these is underselling. The extent of the
5 underselling is fully documented in the prehearing staff
6 report and in Petitioners' prehearing brief. That analysis
7 shows that imports from China have rapidly increased their
8 U.S. market share through low prices in a market where
9 purchasing decisions are made on the basis of price.

10 One Respondent brief relies on a factually
11 unsupportable argument of geographical isolation, but both
12 Respondents declined to discuss head on the obvious
13 implications of the underselling analysis performed by the
14 Commission staff. Their silence speaks volumes.

15 Thank you.

16 MR. MALASHEVICH: I'll conclude with some brief
17 remarks on remedy.

18 In order to provide effective import relief to the
19 domestic wire hanger industry, Petitioners recommend that a
20 tariff be imposed on all steel wire hangers from China. The
21 import tariff should be in the form of a specific tariff on
22 each imported hanger, and the amount is calculated and set
23 forth in detail on the last several pages of Petitioners'
24 prehearing brief. I am not at liberty to indicate this
25 amount because it was calculated using APO information.

1 Petitioners recommend a specific tariff rather
2 than an ad valorem tariff as a means of insuring that relief
3 would be as effective as possible. An ad valorem tariff, as
4 you know, is calculated as a percent of the declared import
5 value, whether a Customs value, FAS, foreign port value, et
6 cetera.

7 In this case, the remedial value of an ad valorem
8 tariff would be reduced if foreign producers and/or
9 exporters simply lowered their prices, an ability they
10 clearly have. Given the already low prices of imports
11 documented in this investigation and the apparent ability of
12 importers to sustain a policy of substantial overselling
13 over a period of years while increasing supply, the domestic
14 industry is greatly concerned that foreign producers and
15 exporters will in fact reduce their prices as much as
16 necessary to undermine the remedial effect of an ad valorem
17 tariff.

18 This is even more of a concern in instances where
19 a Chinese producer and a U.S. importer are or might become
20 affiliated parties. Consequently, under an ad valorem
21 tariff on a product like hangers the likelihood is that
22 imports from China would continue to depress prices and
23 undersell domestic producers.

24 A specific tariff has the advantage of being less
25 susceptible to manipulation by the lowering of export prices

1 through transfer pricing between affiliated parties or
2 otherwise. Petitioners propose that the specific duty
3 remain constant for the duration of the remedy period.

4 The mechanics of how the proposed specific tariff
5 was calculated rely on APO material, as I said before, but
6 are discussed in detail in Petitioners' prehearing brief.
7 The year 1999 was chosen as the base year for the tariff
8 calculation because 1999 was the last year during which the
9 domestic industry experienced a reasonable level of profit
10 and was not otherwise being substantially injured by imports
11 from China.

12 Mr. Kimball and I would be pleased to answer any
13 of your questions. Thank you for your attention.

14 MR. WAITE: Madam Chairman, that concludes our
15 affirmative presentation, and we are prepared to respond to
16 any questions that you and the other Commissioners may have,
17 but first I would like to ask the Secretary if she could
18 tell me the amount of time we have left.

19 MS. ABBOTT: You have eight minutes left.

20 MR. WAITE: Thank you, Madam Secretary.

21 CHAIRMAN OKUN: Thank you. Before we begin the
22 questioning, let me thank all the witnesses for appearing
23 here today, particularly to our industry witnesses, but the
24 producers and the distributors who have taken the time to be
25 with us here in Washington today. We very much appreciate

1 your input, and we will begin the questioning this morning
2 with Commissioner Koplan.

3 COMMISSIONER KOPLAN: Thank you, Madam Chairman,
4 and I, too, thank the witnesses for their presentation.

5 My first question is directed to the executives of
6 the wire hanger manufacturers. As you know, Laidlaw, a
7 substantial domestic producer of wire garment hangers, who
8 also imports the product under investigation, alleges that
9 most of the increase in imports has been by domestic
10 producers, that imports other than by U.S. producers have
11 been most with a small increase in 2001 and 2002.

12 They go on to state that, "Moreover, those non-
13 producer imports that have entered the U.S. market have been
14 confined to certain geographic markets, certain customer
15 segments and certain product categories and have not been a
16 significant contributing factor to pricing trends in the
17 market or to current conditions in the domestic industry."

18 That's from their brief at pages 2 and 3, and it's
19 throughout their brief actually. We've heard it again this
20 morning. This actually wasn't addressed in the brief filed
21 on your behalf, but I've heard comments about those
22 allegations this morning that the purchases were for
23 purposes of survival, et cetera.

24 I'm particularly interested in this because of two
25 things. Although I can't get into specific numbers, your

1 market share has been what I consider to be quite high
2 during the period in my estimation of what I'm looking at,
3 and at the same time your capacity utilization has been what
4 I would consider to be extremely modest during this same
5 period, so I'd like to probe into this with you a bit if I
6 could.

7 First, and let me just run through this, and then
8 you can respond, is the market for steel wire hangers
9 regional from the standpoint of pricing and service? While
10 you may ship throughout the United States, do you
11 concentrate your sales within certain geographic boundaries
12 of your shipping facilities? If so, what boundaries do you
13 set for yourselves?

14 Secondly, are there transportation and handling
15 considerations that make sales outside of a region
16 uneconomic as alleged by Laidlaw in their brief at pages 9
17 and 17? Do you know and can you comment on whether the
18 Chinese imports are being sold predominantly on the west
19 coast? I know that in interim 2002 they were being shipped
20 predominantly to the west coast.

21 Under the new tariff schedule that removes it from
22 the basket category and has a specific category for hangers,
23 it appears that about 65 percent of Chinese imports were
24 coming into Los Angeles and about close to 26 percent were
25 going into New York City. Now, that doesn't mean that the

1 product is sold there, but that's where they're coming in.
2 I'd like to hear from you on these issues.

3 With regard to handling, they mention
4 transportation and handling. They indicate that imported
5 hangers from China are packed in boxes in the shipping
6 containers rather than on pallets due to Chinese
7 restrictions on the use of timber and that the greater
8 majority of distributors are not equipped or willing to
9 unload individual boxes from containers and that that
10 process which involves unloading, palletizing and shrink
11 wrapping adds significant time and cost to the
12 transportation charges.

13 With that background, if I could hear from the
14 domestic producers on the questions I've raised?

15 MR. MAGNUS: Thank you, Commissioner. I am Milton
16 Magnus from M&B Metal Products.

17 The shipping concerns that Laidlaw has are not
18 significant. We market our product in the eastern half of
19 the United States only because we have chosen to do that.
20 The palletizing, we palletize most of our shipments, but to
21 unload a container of Chinese hangers, which we have done,
22 is a non-expense compared to the savings that you get when
23 you buy a container load of --

24 COMMISSIONER KOPLAN: So you don't market on the
25 west coast?

1 MR. MAGNUS: No, sir, we do not. We have
2 customers in Florida, Texas and New York that have all
3 bought Chinese hangers and that are competing with Chinese
4 hangers. It is much of our marketing area.

5 COMMISSIONER KOPLAN: Okay. Mr. Goldman, you're
6 located in New Jersey?

7 MR. GOLDMAN: Yes.

8 COMMISSIONER KOPLAN: Are you similarly marketing
9 and selling on the east coast?

10 MR. GOLDMAN: Yes. We've answered in our
11 questionnaire that predominantly our sales are east of the
12 Mississippi. There are quite a few imports coming into New
13 York. These imports do not just stay in New York. The
14 ports are in New York, but the imported products --

15 COMMISSIONER KOPLAN: I acknowledge that.

16 MR. GOLDMAN: -- go a lot further. We don't find
17 that transportation cost is a problem within our market
18 range that we predominantly sell. We do a lot of back
19 hauling with our own trucks, and this negates some of the
20 transportation costs that Laidlaw might be talking about.

21 COMMISSIONER KOPLAN: If you could estimate for
22 me, what are the geographic boundaries of the region in
23 which you do market and sell? Is it 100 miles? Five
24 hundred miles? Where does most of it go boundary wise?

25 MR. GOLDMAN: Most of our product is sold in the

1 northeast. However, we sell in Florida. We go to Chicago.
2 That's the predominant sales focus of our company.

3 COMMISSIONER KOPLAN: Okay. And Mr. Magnus? I'm
4 not ignoring Mr. Roby, Mr. Waite. I'll get to him.

5 MR. MAGNUS: About 1,000 miles from our plants or
6 less.

7 COMMISSIONER KOPLAN: Or less. What percentage
8 would you say is less than 500 miles?

9 MR. MAGNUS: Probably 30 to 40 percent, and 500 to
10 800 makes up the majority of the remainder.

11 COMMISSIONER KOPLAN: Is the majority of it?

12 MR. MAGNUS: Yes, sir.

13 COMMISSIONER KOPLAN: Thank you. Now, Mr. Roby, I
14 remember you said this morning you sell everywhere.

15 MR. ROBY: That's correct.

16 COMMISSIONER KOPLAN: If you could estimate for me
17 with percentages how much and where? What percentage of
18 your sales are within a 500 mile radius or a 1,000 mile
19 radius?

20 MR. ROBY: Because of the placement of our plants,
21 the majority of our sales are within 1,000 miles of our
22 facilities easily. I think the place in question is
23 probably the west coast, and I have two comments to make
24 here.

25 Prior to the acquisition of Midwest Hanger, which

1 is in Kansas City, they were supplying the west coast with a
2 significant quantity of product. We supply the west coast
3 out of our Brenham, Texas, facility, which is 1,400 miles or
4 so. I would estimate out of that facility, which is our
5 largest facility, slightly less than half of our product is
6 being shipped over those distances.

7 COMMISSIONER KOPLAN: There would be some
8 difference in cost to you shipping 1,400 miles as opposed to
9 500 miles, wouldn't there?

10 MR. ROBY: That's right. I can tell you from an
11 overall perspective as a company, when we shut down the
12 Union City, California, facility and consolidated it into
13 Brenham, Texas, our overall cost of transportation went up
14 about 1.3 percent --

15 COMMISSIONER KOPLAN: Okay.

16 MR. ROBY: -- as a cost of sales, so it has had a
17 very, very marginal impact on the overall cost of
18 transportation to CHC.

19 COMMISSIONER KOPLAN: Let me just ask you before
20 my light goes on. Could each of you estimate the percentage
21 of your shipments that you import from China? What
22 percentage of your domestic shipments are Chinese imports?

23 Mr. Goldman?

24 MR. GOLDMAN: Yes. I would prefer that be
25 confidential in a post-hearing brief.

1 COMMISSIONER KOPLAN: No problem. If you could do
2 that in the post-hearing?

3 Mr. Magnus, could you do the same?

4 MR. MAGNUS: Yes, I can. Thank you.

5 COMMISSIONER KOPLAN: Okay. Is there anyone here
6 that doesn't import Chinese product?

7 MR. ROBY: CHC Industries, prior to the
8 acquisition of Midwest in August of last year, imported no
9 hangers. The importation patterns of Midwest would
10 represent -- I'll get it for you -- a very, very small,
11 single digits, of the product shipped from CHC Industries
12 combined today.

13 COMMISSIONER KOPLAN: If each of you in the post-
14 hearing in responding to this could discuss the efforts that
15 you made to source domestic product with products from China
16 and, for that matter, from other non-subject producer
17 companies if you did so? If you could give me that post-
18 hearing, I'd appreciate it.

19 Thank you very much. Thank you, Madam Chairman.

20 MR. GOLDENBERG: Excuse me, sir. May I interject
21 for one second?

22 In answer to one of your questions a little
23 earlier, I have bought product from China delivered to my
24 warehouse on pallets, fully palletized, wrapped and ready to
25 off load with a forklift like we handle normal domestic

1 deliveries.

2 COMMISSIONER KOPLAN: Thank you for that, Mr.
3 Goldenberg. I might come back to this in the next round.

4 Thank you again, Madam Chairman.

5 CHAIRMAN OKUN: Thank you.

6 Let me continue with the industry witnesses, if I
7 could, just to better understand who you sell to and how
8 sales are made.

9 One of the things, and, Mr. Malashevich, you
10 mention in your description of the industry where the
11 concentration is. I wondered if the industry witnesses
12 could talk a little bit.

13 I know you've supplied us with lists of who your
14 customers are, and I've heard the distributors talk about
15 they're selling to thousands of small dry cleaner shops all
16 around, but I wondered if you could just tell me in terms of
17 competition with where you see the Chinese product how
18 you've seen that impact with your customers and if you think
19 it's been mostly with your big customers, if you could
20 characterize it in an open session. If it's something you
21 need to do post-hearing that's fine, too, but I just need to
22 understand a little bit more about what this competition and
23 the concentration of purchases means.

24 MR. MAGNUS: Thank you, Madam Chairman. I'm
25 Milton Magnus with M&B Metal Products. We service the

1 eastern half of the United States.

2 In the State of Florida, there are four customers
3 of M&B that are distributors. One of those distributors or
4 two of those distributors purchase Chinese hangers. In
5 Atlanta, Georgia, we have three customers, of which one
6 purchases Chinese hangers, and he does that primarily
7 because another distributor that we do not sell to in
8 Atlanta purchases Chinese hangers.

9 Wherever a distributor is, large or small -- the
10 smaller one in Atlanta is much smaller than the other three
11 accounts that purchase Chinese hangers -- they drive the
12 price down on the particular products that they purchase.

13 CHAIRMAN OKUN: Okay. Mr. Goldman?

14 MR. GOLDMAN: Yes, Madam Chairman. Joel Goldman,
15 United Wire Hanger.

16 We have and all of our major customers have also
17 imported hangers from China. We have a customer in Chicago
18 that has imported from China, a customer in Atlanta, a
19 customer in Miami, two customers in New York City, two major
20 customers in New York City. We have found that imports from
21 China have infiltrated the majority of our customers.

22 CHAIRMAN OKUN: Mr. Roby?

23 MR. ROBY: Yes. I would just like to add the
24 concept of this being regionalized I adamantly disagree
25 with. I'm sitting here trying to contemplate one region of

1 the country that I do not run up against Chinese
2 competition, and I honestly can't think of one.

3 More than that is the concept of some distributors
4 cannot handle containers. I believe that was mentioned.
5 Even the smallest distributors are obviously handling the
6 shipment mechanisms that the Chinese are using, because
7 they're getting Chinese hangers.

8 I can't sit here and define how that's being done,
9 but I would say that I would definitely disagree that it's a
10 regionalized situation. There's not one region that I
11 serve, and I serve the whole country, that is not impacted
12 from the west coast to Denver to Texas, clearly Florida and
13 up and down the east coast and then in the midwest. It's
14 all there, and that is simply wrong.

15 CHAIRMAN OKUN: Obviously the staff has collected
16 information on lost sales and lost revenue that was
17 presented, but I know a number of you referenced invoices
18 where you've seen Chinese competition.

19 If there is anything that has not been submitted
20 for the record that would help establish what you're talking
21 about where you see the Chinese in all regions and where
22 you're competing, I think that would be useful information
23 that I'd like to see in a post-hearing brief. To the extent
24 that's available, that would be helpful.

25 Let me also ask you. When you're talking about

1 your major customers, and you referenced that you had seen
2 at least, Mr. Goldman, and I think all of you said you've
3 seen it in all your customers. Do any of your customers
4 account for a very large percentage of your sales? In other
5 words, have the losses been with big customers? Small
6 customers? Is it pretty well spread out?

7 MR. GOLDMAN: Yes. Joel Goldman, United Wire
8 Hanger, Madam Commissioner.

9 We've seen it spread out with small customers and
10 large customers. Of course, it's had a larger effect with
11 us with the larger customers.

12 CHAIRMAN OKUN: Okay. Mr. Magnus?

13 MR. MAGNUS: Madam Chairman, we see it throughout
14 our customer base and the distribution end of it. We have
15 customers, as I said in my opening remarks, that purchase
16 virtually all of their caped hangers and shirt hangers from
17 China because of price. We supply them with the other
18 hangers they produce, but we've virtually lost that segment
19 of our business.

20 CHAIRMAN OKUN: Mr. Roby?

21 MR. ROBY: I would agree with that. It's the same
22 situation for CHC across all small, medium and large
23 customers.

24 CHAIRMAN OKUN: Okay. Would any of you or the
25 distributors feel comfortable talking or describing how you

1 see Laidlaw operating in this market? A lot of the
2 information is confidential on how they've described their
3 sales and prices, but if there's anything you could relate
4 about Laidlaw or its prices or what you've seen firsthand?

5 Is there anyone here who could do that? Yes, Mr.
6 Mindich?

7 MR. MINDICH: I do business with Laidlaw.
8 Although I don't buy hangers from them, I buy other products
9 from them so I get quotes on hangers every now on then.
10 They've always been comparable with domestic hangers.

11 Laidlaw lost a large amount of business in our
12 market eight years ago. They were probably the prominent
13 player at one point. Due to some I don't know if it was bad
14 business decisions or different business decisions, they
15 ended up losing four or five distributors that they had
16 business with, but their pricing was always similar.

17 Recently they've gone to China and are selling
18 other distributors that sell Chinese hangers, and that's
19 where they're looking to go, it seems, with their business.

20 CHAIRMAN OKUN: Okay. Are you familiar? Do you
21 have any firsthand experience with the prices, what their
22 prices have been in the prior period I guess before the
23 Chinese importation and now?

24 MR. MINDICH: Yes. Always within one or two
25 percent of where I was paying; sometimes more, sometimes

1 less.

2 You know, historically I've been doing this for 12
3 years. If somebody would come in, you know, and lower
4 prices, they'd lower them by pennies -- a quarter, 30 cents,
5 you know. What ends up happening is the vendor that you're
6 buying from sooner or later matches the price because you're
7 dealing with a hanger. It's a commodity product.

8 What's happening now is the Chinese companies are
9 coming in, and they're offering prices \$3, \$4 a box. When
10 the manufacturer that I'm dealing with comes close, I get
11 even better prices from the Chinese. I'm always at an
12 advantage buying Chinese hangers, and that's why we do it.

13 You asked the question before about, you know, how
14 the pricing gets into the market. Well, a lot of these
15 companies, a lot of the smaller companies that are coming in
16 that are offering Chinese hangers are offering them with
17 flyers and so it's not just, you know, they're selling the
18 product. The impact of the price that they're offering is
19 everywhere.

20 As I said in my testimony, we cover the whole
21 northeast, about 40 --

22 CHAIRMAN OKUN: When you said offering them with
23 flyers, explain to me what you mean.

24 MR. MINDICH: They'll put out a flyer with a
25 price, you know.

1 CHAIRMAN OKUN: A fax?

2 MR. MINDICH: No. They'll mail it, a direct mail
3 piece, and they'll mail it to every dry cleaner in my
4 market. You get into a situation where you have to compete
5 with that price, especially when if you lose the hangers
6 you're going to lose the rest of the business that comes
7 with it.

8 CHAIRMAN OKUN: Tell me a little bit about that
9 because you've referenced and I've heard referenced several
10 times that at least you I know are selling not just hangers,
11 but selling other services, but the hangers were the biggest
12 part.

13 MR. MINDICH: Yes.

14 CHAIRMAN OKUN: Is it bundled at all? That's one
15 thing I've been trying to understand. Do you bundle your
16 other services? You sell hangers plus X?

17 MR. MINDICH: Yes. Well, you might want to call
18 us a manufacturer's rep. You know, we're a distributor of
19 products to dry cleaners.

20 I have 20 sales people that cover the northeast.
21 They stop into a dry cleaner on a two week basis, bi-weekly.
22 They'll go in there and take orders for whatever a dry
23 cleaner needs to run their business -- hangers, plastic
24 bags, chemicals, pins, staples, twist-ems, you know, a whole
25 bunch of different --

1 CHAIRMAN OKUN: Are they priced separately, all
2 those items, or do they bundle it up?

3 MR. MINDICH: Yes. We have a price list of every
4 single item. You know, the more you buy the price comes
5 down a little bit, but it's always competitive with
6 everything in the market.

7 I mean, you know, we have a certain profit margin
8 in mind that's confidential to us, but I'm sure it's similar
9 to that of other distributors. We know what we need to do
10 to stay in business.

11 CHAIRMAN OKUN: Are the other distributors you're
12 competing against selling the same range of dry cleaning
13 goods --

14 MR. MINDICH: Yes.

15 CHAIRMAN OKUN: -- and services --

16 MR. MAGNUS: That's correct.

17 CHAIRMAN OKUN: -- beyond hangers?

18 MR. MINDICH: Yes.

19 CHAIRMAN OKUN: Okay. How about the other
20 distributors?

21 MR. GOLDENBERG: Madam Chairman, our company, a
22 good percentage of our sales is in the New York City area.
23 I compete directly with a company there who buys their
24 hangers exclusively, to the best of my knowledge, from
25 China, a company by the name of Wells Manufacturing, which I

1 believe is in some way or another connected to Laidlaw
2 Corporation.

3 As an example, for the last little while Cleaners
4 Products has sold a box of strut hangers, by example, at
5 \$17.50 would be our average selling price on the street, and
6 that would be a normal gross profit based on what our cost
7 was. This company that I compete against is retailing the
8 product through direct mail like Mr. Mindich had said at \$15
9 per box.

10 At a level like that, when I'm dealing with sales
11 people that are making, you know, commissions and such it's
12 virtually impossible for me to get down to that level to
13 compete based on what my cost was, so ultimately what ends
14 up happening is I go back to my domestic manufacturers and
15 try to get myself or get the company into a competitive
16 situation.

17 In conjunction with that, this particular company
18 has been creating some dissention in my sales team, okay, in
19 that I'm not allowing them to sell certain products at
20 certain prices and, therefore, I'm tampering with their
21 income. That has become somewhat of a volatile situation in
22 my company.

23 CHAIRMAN OKUN: Okay. My red light has come on,
24 but I'm going to have some other questions of Mr. Hericks,
25 so I'm going to come back and find out from you how your

1 company does business, but I'll have a chance to do that on
2 another round.

3 Vice Chairman Hillman?

4 VICE CHAIRMAN HILLMAN: Thank you very much. I,
5 too, would join my colleagues in thanking you all very much
6 for taking the time to be with us this morning. It's
7 extremely helpful.

8 I guess if I could just follow up to some extent
9 on this same line of questioning. You mentioned these
10 flyers that are going directly to the dry cleaning
11 establishments themselves. Do they tend to take up this
12 offer?

13 I mean, I'm trying to understand. Does your
14 typical dry cleaning establishment prefer to buy all of
15 their products, their cleaning products, their twists, their
16 hangers, et cetera, all from one supplier, or are they
17 willing to get their hangers from one place and whatever
18 else they need from somewhere else?

19 MR. GOLDENBERG: Jason Goldenberg. I think that
20 there was a time when I came into this industry that the
21 customers were certainly more loyal and more out to buy 100
22 percent of their products or the vast majority of their
23 products from one distributor, which is based in part on
24 their relationship with the salesman or the salesperson
25 that's out on the street.

1 That has changed over the years, and we use the
2 terminology cherry picking our lines. We sell a lot of
3 chemicals and various packaging products at what we would
4 consider a normal gross profit, and some of the hangers that
5 we used to sell we no longer sell because companies are
6 buying the chemicals from us, the tags, the pins, and
7 they're buying the hangers from whoever is the cheapest on
8 the street, so that has had the effect.

9 VICE CHAIRMAN HILLMAN: And when would you say
10 this trend of kind of splitting up, and I don't want to say
11 splitting --

12 MR. GOLDENBERG: This has been happening --

13 VICE CHAIRMAN HILLMAN: -- up an order, but, I
14 mean, buying hangers one place and everything else somewhere
15 else?

16 MR. GOLDENBERG: Well, it's become extremely
17 prevalent in the last -- you know, in the period in question
18 here in the last two years so much so that I would be happy
19 to provide in post-hearing briefs some customers that have
20 been real good 'ole Joes like we like to call them, real
21 loyal customers, that are buying everything from us except
22 hangers now.

23 VICE CHAIRMAN HILLMAN: Okay.

24 MR. GOLDENBERG: Particularly in the last little
25 while, my salesmen, the sales people, have been able to hold

1 onto that business for a nickel and a dime, but they can't
2 hold onto that business for \$2 and \$3.

3 VICE CHAIRMAN HILLMAN: And typically when these
4 customers then split, are they getting their hangers from
5 another distributor like you that would like to be selling
6 the chemicals, or are the hangers being sold I don't want to
7 say direct, but I mean more direct as sort of a separate
8 item?

9 MR. GOLDENBERG: Well, as an example, this company
10 that I compete with in the five borough area, I'm not privy
11 to their financial information, but I know that wire hangers
12 account for 32 percent of our total sales.

13 By my best guess, wire hangers account for
14 probably about 80 percent of his total sales, so he's really
15 become an outlet to sell wire hangers, whereby we've become
16 an outlet to sell chemicals, other products and a
17 convenience item of hangers if I can get to the right level.

18 VICE CHAIRMAN HILLMAN: I wonder if any of the
19 other distributors, Mr. Hericks or Mr. Mindich, want to --

20 MR. HERICKS: Yes. Jim Hericks, Dallas Tailor. I
21 might comment a little bit about what David said about the
22 flyers. In Texas and Arkansas, we deliver to a lot of rural
23 areas, and what we have seen, too, is the flyers being
24 mailed out to all of these areas.

25 We go out to Midland-Odessa, which is six to seven

1 hours out of Dallas. There's not a lot of demand for dry
2 cleaned laundry out there, but these flyers have somehow
3 made it out there. They get mailed out there. Our salesmen
4 go in to take an order, and we're trying to get \$16 or \$17
5 for a box of shirt hangers, and here they've got an
6 advertisement there for \$11.95.

7 We have seen it. They really can't deliver that
8 well out there, but they have sent out the flyers and have
9 attempted just to grow market share.

10 VICE CHAIRMAN HILLMAN: Mr. Mindich?

11 MR. MINDICH: Yes. In reference to the point
12 about flyers, what happens, you know, is we feel we offer a
13 very fair price, competitive, and a quality product and
14 quality service. Really that's what we have to offer
15 because we're selling the same products as our competitor.

16 What happens is these other prices -- I'm selling
17 a product for let's say, you know, \$18 or \$17.50, and I'm
18 doing business with whatever loyal customers I have left.
19 They get this flyer in the mail. They open it up, and they
20 say \$15, \$14.50. They look at me like I'm doing something
21 wrong, but the truth is I'm not. You know, I can't be
22 competitive with that. That's why we chose to buy Chinese
23 hangers ourselves.

24 VICE CHAIRMAN HILLMAN: Okay. On the producer
25 side, does the price of one kind of hanger affect the other?

1 In other words, if the prices are going down on shirt
2 hangers does that affect cape hangers or strut hangers, or
3 do the prices of each of the kind of separate products move
4 on their own?

5 MR. GOLDMAN: Joel Goldman, United Wire Hanger,
6 Madam Chairman.

7 I believe that each individual item is moving on
8 its own, but the products that are being imported from China
9 are all being imported at very low prices so each of those
10 particular items have been reduced in price in comparative
11 percentages.

12 VICE CHAIRMAN HILLMAN: Okay. What I'm trying to
13 understand is do you ever kind of package it saying well,
14 I'll give you a certain amount of break on shirt hangers as
15 long as you're also taking X amount of cape hangers at a
16 sustained price? I mean, do they --

17 MR. GOLDMAN: No.

18 VICE CHAIRMAN HILLMAN: Is there a relationship?
19 Is there a packaging of hangers just across those product
20 lines?

21 MR. GOLDMAN: We have to be competitive on each
22 individual item. Our distributors have to be able to sell
23 each item, and they have to be able to buy it from us at a
24 competitive price. If they can't get it from us at a
25 competitive price, they have to buy it from wherever they

1 can, and that lately has been from China.

2 VICE CHAIRMAN HILLMAN: Mr. Roby?

3 MR. ROBY: Yes. I would just add that the
4 negotiation of price is good for about five minutes, so the
5 thought of negotiating a three month deal where you said if
6 you bought X million of these and this and this, it just
7 does not happen today. I have no example that I could give
8 you of that.

9 It's really we're dealing on almost a daily basis
10 with, you know, regional issues that come up through
11 distributors. It could happen anywhere in the country on
12 any given day. We do not negotiate big type deals like
13 that.

14 VICE CHAIRMAN HILLMAN: Okay. All right. That's
15 helpful. Given that your sense is that all of these
16 products move separately in terms of prices, can you tell me
17 a little bit more about the uniform, the hanger that's used
18 more in establishments that are providing uniforms, rental
19 uniforms or other things, which I understand is a little bit
20 different than any of the products that we've priced?

21 Tell me a little bit more about that product and
22 what's happened to the pricing of that product, the uniform
23 rental type hanger.

24 MR. ROBY: Right. This is John Roby at CHC. The
25 product is generally the same. There's slight differences

1 in terms of the length of the neck and the hook because some
2 of them are used on high speed automated sort systems so
3 there are specific geometries of those hangers.

4 It's nothing of -- you know, it's no secret. If
5 you hold up a long neck hanger from any of the competition,
6 they're generally speaking the same.

7 VICE CHAIRMAN HILLMAN: Now, the gauge would be
8 also the same?

9 MR. ROBY: The gauge can be. The gauges vary
10 across the board. Some of my industrial accounts use
11 standard white hangers, and there is no -- it is an
12 industrial customer that uses a white hanger, so it really
13 is dependent upon the type of equipment that they've
14 installed what type of hanger.

15 Generally speaking, industrial customers want to
16 use one hanger. That's really the single biggest difference
17 is when they come in they want us to design a hanger that
18 it's not perfect for any one application, but it works for
19 all.

20 That's why you'll see latex type product on a
21 bottom bar. It really should be a strut if you want to hold
22 a pair of pants, but they're not going to use a strut
23 hanger. Through the years, the industry has developed, you
24 know, a series of hangers that work across the board
25 reasonably well.

1 VICE CHAIRMAN HILLMAN: Okay. Can you describe
2 what's happened to prices in that product?

3 MR. ROBY: We have seen, as the pressure for
4 volume -- I would characterize it this way. As volume has
5 been lost in the distributor world, it has put increasing
6 pressure and competition on the industrial world, and it's
7 resulted in prices going down in the industrial world also
8 because if we lose out everyone is looking for volume, so it
9 has not been a market that has been unaffected by Chinese
10 imports in any way.

11 I'd say it's been directly affected because what
12 we used to supply, you know, people are looking to fill
13 their factories.

14 VICE CHAIRMAN HILLMAN: Okay. If I could ask from
15 a data perspective if it's possible to provide prices of
16 this uniform or, you know, industrial market hanger in the
17 same way that you provided questionnaire data on the
18 Products 1 through 6?

19 I'm just looking to see, again if it's available,
20 what has been the price trend of these industrial uniform
21 type hangers, you know, in the same way that it was provided
22 for for the other products that the Commission asked for.

23 Mr. Waite, if that's available for the post-
24 hearing, that would be much appreciated.

25 MR. WAITE: We will certainly try to --

1 VICE CHAIRMAN HILLMAN: Quantity and value.

2 MR. WAITE: I understand, Madam Vice Chairman.

3 And you would like it for the entire period of
4 investigation?

5 VICE CHAIRMAN HILLMAN: Again, if it can be done
6 that would be very helpful. Again, I'm looking to see
7 what's happened over time.

8 MR. WAITE: We will certainly try to get that
9 information for you.

10 VICE CHAIRMAN HILLMAN: Thank you very much.

11 CHAIRMAN OKUN: Commissioner Bragg?

12 COMMISSIONER BRAGG: Thank you, Madam Chairman.
13 I, too, would like to thank the panel for their testimony
14 this morning.

15 I'm somewhat embarrassed to ask you to do this,
16 having married into a dry cleaning and laundry family, but
17 I'm going to do it anyway. Mr. Waite, could you choose
18 someone to come up and just briefly go over the hanger types
19 for me? We've talked a lot about hangers, and it would just
20 really be helpful for me to make sure I'm clear on which is
21 which.

22 MR. WAITE: Of course, Commissioner Bragg.

23 COMMISSIONER BRAGG: Thank you.

24 MR. WAITE: We'll have Mr. Goldenberg because he's
25 actually a salesman.

1 COMMISSIONER BRAGG: Okay.

2 MR. GOLDENBERG: Are we on here? Okay. This
3 hanger right here is a 13 gauge wire suit hanger. It was
4 traditionally used to hang --

5 COMMISSIONER BRAGG: Mr. Goldenberg, can you put
6 it --

7 MR. GOLDENBERG: Sure.

8 COMMISSIONER BRAGG: -- back up on the stand?

9 MR. GOLDENBERG: That was for the height
10 challenged on the floor.

11 COMMISSIONER BRAGG: We better not go there.

12 MR. GOLDENBERG: Okay. This is a 13 gauge suit
13 hanger. It's a standard wire hanger that was traditionally
14 used to hang suits. They would apply a piece of cardboard
15 paper along the bottom that you could drape a pair of pants
16 over.

17 Okay. This is an executive caller, you know, a
18 variation on the suit hanger with a little bit of a
19 different bend to accommodate the way the clothes lay on
20 that particular hanger.

21 This is a standard 14 gauge cape hanger, 14½ gauge
22 cape hanger. It's primarily used for garments that are
23 pinned so they're not moving around.

24 These are shirt hangers in various colors, 18
25 inch. The standard used to be 16 inch. It's now 18 inch so

1 that the shirts drape properly over the end of each hanger.

2 This looks like a 13 gauge caped hanger. This is
3 a caped hanger that is just a little bit stronger in gauge
4 for those heavier garments that you're hanging. This is
5 also custom printed with the store's name or the company's
6 name or whatever it happens to be. That's a common form of
7 advertising in our industry.

8 This is very similar to that product. There's no
9 real difference. This is your standard, 18-inch, wire
10 hanger. This is the industry norm. That's what 95 percent
11 of our customers buy to hang a dress shirt on. This is a
12 13-gauge, plain, caped hanger. It is the same hanger as
13 this hanger without the advertising, for somebody that's
14 interested in paying a little lower price and not having
15 their name out there. This hanger and this hanger and this
16 hanger are all what we call generic-stock, caped hangers,
17 again, for customers that are interested in getting a
18 message out there but not necessarily in promoting their
19 store name.

20 This is a strut hanger. This is also the industry
21 standard now for hanging suits and pants.

22 COMMISSIONER BRAGG: Thank you. That was very
23 helpful.

24 What is the most widely used hanger? Is it the
25 white-shirt hanger? Mr. Magnus?

1 MR. MAGNUS: Milton Magnus, M&B Metal Products.
2 The white-shirt hanger and the strut hanger are our two
3 largest movers.

4 COMMISSIONER BRAGG: Okay. I guess I just have
5 some questions -- I guess we'll probably be hearing about
6 this powder coating. The domestic industry does not use the
7 powder-coating method for their white-shirt hangers -- is
8 that correct? -- like the Chinese do.

9 MR. MAGNUS: You are correct. Basically, the way
10 we paint our hanger and the way our competition paints their
11 hanger protects the hanger and gives it the appearance of a
12 nice hanger, and never seen the need for that.

13 MR. ROBY: This is John Roby. I would like to
14 just state, from our perspective, we have evaluated it, and
15 it would be about a 54 percent increase in our cost of
16 painting to powder coat. So we chose high-volume, efficient
17 painting processes, and although we do it slightly
18 different, it's all basically the same. We paint high-
19 volume hangers, and we pick the process that was most cost
20 effective and produced a high-quality product.

21 COMMISSIONER BRAGG: Mr. Goldman?

22 MR. GOLDMAN: Yes. Joel Goldman, United Wire
23 Hanger. We, too, feel that our electric-coat paint process
24 is just fine for our white-shirt hanger, and we don't feel a
25 need to increase our costs without adding any value to a

1 product.

2 COMMISSIONER BRAGG: Okay.

3 MR. MINDICH: David Mindich. Could I add
4 something to that?

5 COMMISSIONER BRAGG: Sure.

6 MR. MINDICH: As I said in my testimony, we
7 commingle hangers from United Wire Hanger, M&B Hanger, and
8 our various Chinese sources which our powder coated all in
9 one warehouse, and we don't get any requests from our
10 customers for one over the other. The ones that get the
11 Chinese are the ones that really care about price, but
12 nobody is saying, send me a powder-coated shirt hanger.

13 COMMISSIONER BRAGG: They are not saying, we want
14 a finer quality white-shirt hanger, so we want a powder-
15 coated shirt hanger.

16 MR. MINDICH: No, never. The ones that ask for a
17 Chinese hanger are the ones that are asking for the price.

18 COMMISSIONER BRAGG: Okay. All right.

19 MR. GOLDENBERG: We see the same in our business
20 as well.

21 COMMISSIONER BRAGG: Okay. Thank you. That's,
22 again, very helpful.

23 Mr. Goldman, just a couple of questions from your
24 testimony, and they are just small questions. You spoke
25 about your peak employment when you had about 220 employees.

1 When was that?

2 MR. GOLDMAN: That was 1999 and part of 2000.
3 We've reduced the number of employees in 2001 and further in
4 2002.

5 COMMISSIONER BRAGG: Okay. Thank you.

6 MR. GOLDMAN: You're welcome.

7 COMMISSIONER BRAGG: And, Mr. Magnus, how many
8 people do you employ in your plants in Alabama and Virginia?

9 MR. MAGNUS: In Alabama, presently we employ about
10 75 or 80, and Virginia is close to the same number.

11 COMMISSIONER BRAGG: Okay. When was your peak
12 employment? Was it about the same years as Mr. Goldman?

13 MR. MAGNUS: It was two or three years ago, yes.
14 We have not rehired people when they retire or replace
15 people when they retire.

16 COMMISSIONER BRAGG: Okay. And, Mr. Roby, one
17 other point that I would like to have you go over just a
18 little bit more, and you did touch upon it in your
19 testimony, was this cyclical industry argument that I think
20 we'll probably hear a little bit more when the party in
21 opposition comes before us a little bit later. They are
22 saying that this is, in fact, a cyclical industry, and you
23 have said it is not. Could you just go over for me one more
24 time why it is not a cyclical industry?

25 MR. ROBY: I think it's a difference of

1 definition. The Respondents are claiming that single-digit
2 variations in demand year over year represents a cyclical
3 business. I stated from my experience. I've worked in
4 cyclical businesses where employment -- when I worked at GE
5 Aircraft Engine, there was 8,000 people. When I left five
6 years later, there were 25,000 people in that plant. That's
7 a cyclical business.

8 We don't see anything remotely that way, and if
9 they have a definition of "cyclical" that's different, then
10 I would be interested to hear that, but I've been in
11 business for a fairly long time, and this does not even
12 remotely -- the cycles that we go through here are a piece
13 of cake compared to what you see in true cyclical-type
14 businesses. Orders don't vary 50 percent. You may see five
15 percent, three percent, two percent, but that's not
16 cyclical. That's just normal changes in demand that can be
17 triggered by various things, up both sides, up and down.

18 COMMISSIONER BRAGG: Mr. Malashevich, you've been
19 very quiet. Do you care to add to anything?

20 MR. MALASHEVICH: I've been holding the few points
21 that I have to make in elaboration until you finish with the
22 industry witnesses, but on the cycle, in addition to Mr.
23 Roby's point, recall that even in the data in the prehearing
24 report, which is a reflection of the questionnaires that we
25 received, the year-on-year changes are very small. And we

1 believe, in the latter part of the period, imports were
2 increasingly understated. So once you add those imports
3 back in, basically you get about a flat line. Indeed, there
4 is some indication that aggregate demand might have
5 increased a bit in the year 2002.

6 So that really gives statistical flesh, so to
7 speak, to Mr. Roby's testimony. This is just not a cyclical
8 industry as you and we are used to dealing with it.

9 MR. GOLDENBERG: May I interject for one moment?
10 Even if somebody were to say that the industry is cyclical,
11 traditionally, as I stated in my testimony, Cleaners
12 Products has traditionally made a considerably larger amount
13 of money in recession times than we have in strong business
14 times, particularly related to the fact that people are not
15 buying as many new garments, and they are taking care of
16 them just a little bit better.

17 This is the first time that we've experienced some
18 tough times that we have not made money or made the kind of
19 money that we have had in the past.

20 COMMISSIONER BRAGG: Thank you very much. I do
21 understand that point. My father-in-law has made that point
22 to me many times, so that is one thing I do understand.
23 Thank you very much for all your answers. They were very
24 helpful.

25 CHAIRMAN OKUN: Commissioner Miller?

1 COMMISSIONER MILLER: Thank you, Madam Chairman,
2 and thank you as well to the business folks here today. We
3 understand you're from small businesses, and taking the time
4 to come and participate in this hearing is a big burden on
5 you, and we appreciate your willingness to do it.

6 I actually want to continue perhaps first with
7 some things following on the line of questions that
8 Commissioner Bragg asked and also some from Vice Chairman
9 Hillman because Mr. Kimball had addressed, and I appreciated
10 it, a couple of the economic points being made by the
11 Respondents in his opening testimony, in particular,
12 regarding demand and the apparent domestic-consumption
13 issue, which Mr. Malashevich also just addressed, and also
14 just looking at the prices of products subject to Chinese
15 competition and those not. And I wanted to go back to the
16 industry witnesses and get you all to elaborate on that.

17 You've done that in response to some of these
18 questions, but I'm going to ask you to do it a little bit
19 more because, following on the discussion just now about
20 cyclical or not, whether it's cyclical or not, I would like
21 you to expand a little bit on just what you think has been
22 going on with demand in the last two years, 2001 and 2002,
23 because there is the argument, and you all have addressed it
24 -- I just want to hear a little bit more about the effect of
25 business casual, the effect of the economy. You've been

1 responding to it. I just want to ask you to do a little bit
2 more because you've each had a few comments perhaps, but I
3 would like to get a little more elaboration.

4 MR. GOLDENBERG: Jason Goldenberg. I can
5 elaborate a little bit for you.

6 COMMISSIONER MILLER: Please.

7 MR. GOLDENBERG: Business casual is not something
8 that came to be in the last two years. This is something
9 that has been growing steadily over the last 10 years.
10 During the 1990's through to last year, maybe 18 months,
11 Cleaners Products has enjoyed a considerable amount of
12 growth in the casual wear end of the business and in
13 business in general. Our product lines have expanded to
14 accommodate new chemicals that are used to clean khaki pants
15 and stuff like that in what's called the wet-cleaning
16 process. I think if you were to ask the Laidlaw
17 Corporation, they probably doubled their product line in
18 chemicals to accommodate this new growth area, so to speak.

19 So there has been, although I wouldn't say
20 exponential growth, there has not been a loss in business.
21 There has been a shift in the products that we use and how
22 we use them, but, again, we have experienced a lot of growth
23 during the casual attire times. So I can't really see a
24 cause-effect relationship there.

25 COMMISSIONER MILLER: Okay. Well, let me ask the

1 other distributors, since they are dealing directly with the
2 cleaners, to address the same issue and what the experience
3 has been.

4 MR. GOLDENBERG: I deal with the cleaners
5 directly, too.

6 COMMISSIONER MILLER: I know you do.

7 MR. GOLDMAN: Okay.

8 COMMISSIONER MILLER: The other distributors,
9 since you're a distributor.

10 MR. MINDICH: I agree with what Jason said. The
11 effects of casual wear were in the early nineties. As a
12 matter of fact, what we started to do for our customers when
13 we started noticing a shift, we started using the caped
14 hangers that you see in front of you, the designs, the
15 advertising, for them to advertise to their customers, bring
16 us your casual wear, and we sort of increased from that.
17 Now we're starting to see a trend back against casual wear.
18 There are studies that you read about that say that casual
19 wear is a performance problem. When you wear a suit and tie
20 and you dress up, you know, you're offering a better part of
21 yourself.

22 COMMISSIONER MILLER: We've had the suits
23 manufacturers here. We've had this discussion with them.

24 MR. MINDICH: So it is going in the opposite
25 direction. I don't see the negative effects of the last

1 year and a half have anything to do with casual wear.

2 COMMISSIONER MILLER: And what about the economy?

3 MR. MINDICH: The economy, maybe a little bit. My
4 company is selling more hangers -- we will sell more hangers
5 in 2003 than any year in the 40 years of our business, but
6 at 60 percent of our high price, and the reason for that,
7 our competitors, little by little, are getting hurt by the
8 same problem that's hitting us, but they are going out of
9 business, and we're gathering some more of the business, but
10 it's at a lower price, and my company is not the strongest
11 it's ever been, not because of the economy but because of
12 the pricing pressures.

13 COMMISSIONER MILLER: Okay. You're saying your
14 volume is going up, but your value isn't.

15 MR. MINDICH: My volume is through the roof.
16 What's ending up happening, I took 35-year relationships
17 I've had with United Wire Hanger and 15-year relationships
18 with M&B Hanger, and I've chosen to go elsewhere because I
19 felt that if I stayed with them, the survival of my company
20 would not be there in years to come. And it was a very
21 tough decision, but we made it.

22 MR. GOLDENBERG: Jason Goldenberg. One more
23 statement.

24 COMMISSIONER MILLER: Yes, Mr. Goldenberg.

25 MR. GOLDENBERG: I think the effect of casual wear

1 on the industry is most felt by the dry cleaner themselves
2 and not the manufacturers or the suppliers, and by that I
3 mean the person that's not cleaning the suit, the dry
4 cleaner is no longer cleaning a ten-dollar item; they are
5 now cleaning a pair of khaki pants at two and three dollars.
6 So the actual units of clothes going through the dry cleaner
7 are, by my best guess, the same or maybe even higher, but
8 the dollar volume generated would be a little bit lower, if
9 that clarifies anything for you.

10 COMMISSIONER MILLER: Okay. That's an interesting
11 comment. Mr. Hericks, do you want to add anything to this
12 discussion? What's it meant, these two economic issues, for
13 you?

14 MR. HERICKS: I would echo that we are also
15 selling substantially the same number of hangers we have in
16 prior years, but with the 26 percent drop in dollar volume,
17 we have had a substantial impact on our business. But as
18 far as the number of hangers going out the door, it's very
19 similar.

20 COMMISSIONER MILLER: Okay. Do any of the hanger
21 producers want to comment? Mr. Magnus?

22 MR. MAGNUS: Milton Magnus from M&B Metal
23 Products. I've been in the business for 28 years and
24 through a lot of economic cycles, and I've never seen the
25 price pressure on the products imported from China that we

1 feel now. Never this severe.

2 COMMISSIONER MILLER: Okay. Mr. Goldman?

3 MR. GOLDMAN: Yes. Joel Goldman. I guess I'm
4 somewhat senior to Milton. I've been doing this 40 years,
5 and I've never seen 20 to 25 percent reductions in prices of
6 our products in such a short period of time. Prices might
7 have varied a few percent here or there, depending on the
8 cost of raw materials, and we've always found that in a poor
9 economy that the dry cleaners always tell us that people
10 seem to maintain their garments more when things are tough
11 as opposed to buying new garments.

12 So we haven't seen a decrease in demand. In fact,
13 our business has had a steady growth in the 40 years up
14 until the past two years, and we've certainly never seen 20
15 to 25 percent decreases in prices. It's unheard of. It's
16 definitely attributed to imports from China.

17 MR. MALASHEVICH: If I may briefly add,
18 Commissioner.

19 COMMISSIONER MILLER: Mr. Roby looked like he
20 wanted to add something. We'll give you a chance, but he
21 did want to add.

22 MR. ROBY: John Roby. I would just add that any
23 change in volume, from CHC's perspective, is not driven by a
24 lack of opportunity to sell. It's driven by we have chosen
25 not to compete at prices and, therefore, lost volume. We

1 are constantly paying for more volume. The prices are just
2 at a point that we just can't do it. So, from my
3 perspective, and, again, our industry is not very eloquent
4 in terms of collecting data and having all types of
5 statistical information at our disposal, but we haven't seen
6 customers just go away and lack of orders. It's really been
7 an issue of being competitive and being able to continue to
8 drop price and having to just say, we can't do that, and at
9 that point you lose some volume.

10 COMMISSIONER MILLER: Mr. Malashevich?

11 MR. MALASHEVICH: Thank you. I was simply
12 reaching back into ITC folklore and the old cases that
13 considered market disruption, and one of the things that I
14 remember testimony by staff in one of those proceedings in
15 the 1970's, 1980's, what is market disruption? And one of
16 the things that guided me is a substantial increase in the
17 volatility and frequency and depth of price change in a
18 short period of time. And I was impressed by the gentleman,
19 in our earlier discussions preparing for the hearing,
20 saying, you know, before the Chinese entered the market
21 there basically were no imports from anywhere.

22 So the whole regional thing is kind of a red
23 herring because the U.S. industry supplied the entire
24 market. Certainly, the growth of dry cleaners on the West
25 Coast did not occur in the last three years. Somebody was

1 selling them hangers, and they were all U.S. hangers. Mr.
2 Goldman told me that before the Chinese entry he had
3 marketed nationally, but it was because of the Chinese entry
4 that he withdrew to east of the Mississippi.

5 So this is not a situation where the Chinese were
6 displacing the Germans or the Mexicans. It's where you had
7 zero, and then you had practically all Chinese. And before
8 the entry, Mr. Magnus told me this morning, they changed
9 prices once every two years, once, and now Mr. Roby is
10 saying they change every five minutes and by a much larger
11 magnitude. Instead of one or two percent varying with raw
12 material costs, it's now 25 percent, regardless of raw
13 material costs.

14 So it's increase in the volatility, the frequency
15 of price change, and the depth of price change that I think
16 is one of the clearest indications of market disruption in
17 this case.

18 COMMISSIONER MILLER: I appreciate that. I'll
19 come back to my other question in the next round. Thank
20 you.

21 CHAIRMAN OKUN: Commissioner Koplan?

22 COMMISSIONER KOPLAN: Thank you, Madam Chairman.
23 Mr. Goldenberg, if my recollection serves me right -- if it
24 doesn't, you can correct me, but I thought that you
25 indicated in your direct presentation that you previously

1 purchased hangers from China but don't do so today. Am I
2 right?

3 MR. GOLDENBERG: That is correct.

4 COMMISSIONER KOPLAN: Okay. Let me ask you, when
5 you did, did you, as Mr. Mindich, I believe, testified --
6 were you commingling them with your other products?

7 MR. GOLDENBERG: Absolutely.

8 COMMISSIONER KOPLAN: You were.

9 MR. GOLDENBERG: Yes.

10 COMMISSIONER KOPLAN: Okay.

11 MR. GOLDENBERG: I might add that the reason we
12 bought hangers from China was because the domestic
13 manufacturers, in an attempt to raise the price here,
14 created such a disadvantageous position that we would not
15 even be able to go to the front door and sell any product.
16 So I needed a source to supply me at a cost-effective level.

17 COMMISSIONER KOPLAN: During what period of time
18 were you purchasing Chinese product, and when did you cease
19 to do so?

20 MR. GOLDENBERG: I think we started in June of
21 2002. We did for probably June, July, and August, and it
22 ceased around September.

23 COMMISSIONER KOPLAN: Oh, so it's been that
24 recent.

25 MR. GOLDENBERG: Correct.

1 COMMISSIONER KOPLAN: Okay. So it wasn't on the
2 basis of quality or delivery time that you were purchasing -
3 -

4 MR. GOLDENBERG: It had nothing to do -- other
5 than price. It has nothing to do with anything other than
6 price.

7 COMMISSIONER KOPLAN: Now, you've heard the
8 testimony today that domestic producers purchase a
9 significant amount of product from China --

10 MR. GOLDENBERG: Correct.

11 COMMISSIONER KOPLAN: -- and then turn around and
12 sell it.

13 MR. GOLDENBERG: Yes.

14 COMMISSIONER KOPLAN: Do you purchase from
15 domestic producers product that they have imported from
16 China?

17 MR. GOLDENBERG: I do, not by request, but by the
18 fact that certain companies I do business with have Chinese
19 product in their warehouse. I ask for caped hangers, and
20 they send me Chinese hangers or domestic hangers, depending
21 on what's in stock on that given day.

22 COMMISSIONER KOPLAN: And when you purchase those
23 hangers, are you charged a different price by that same
24 domestic producer than that domestic producer would charge
25 for something that they had manufactured themselves?

1 MR. GOLDENBERG: No, I'm not.

2 COMMISSIONER KOPLAN: The same price.

3 MR. GOLDENBERG: The same price.

4 COMMISSIONER KOPLAN: So if they would be selling
5 to you at \$10 a load on a domestically produced shipment,
6 and they purchased Chinese product at a lower price, they
7 would sell that to you for \$10 a load as well.

8 MR. GOLDENBERG: Correct.

9 COMMISSIONER KOPLAN: Okay. Let me go along with
10 you a bit and then come back to this. I believe you also
11 indicated that three distributors recently went out of
12 business. Did you say that?

13 MR. GOLDENBERG: Correct.

14 COMMISSIONER KOPLAN: Can you tell me when?

15 MR. GOLDENBERG: I believe Cleaner Sales went out
16 of business in October of 2002. I believe that USA Clean
17 went out of business around September, and I think Jack
18 Danay Company was right around the same time.

19 COMMISSIONER KOPLAN: How significant were those
20 three distributors?

21 MR. GOLDENBERG: USA Clean was a very significant
22 distributor apparently. They didn't really compete with me
23 directly, but I understand they had multiple locations
24 running all up and down the East Coast towards the interior
25 of the country. Cleaner Sales was a direct competitor of

1 mine in the New York City five-borough area.

2 COMMISSIONER KOPLAN: And the third one?

3 MR. GOLDENBERG: And the third one, Jack Danay &
4 Company; my understanding was that they were a rather large
5 player in the Boston-New England market, again, not a
6 competitor of mine.

7 COMMISSIONER KOPLAN: Okay. If some details about
8 this could be provided post-hearing, I would appreciate it.
9 I see, Mr. White, that you're nodding in the affirmative on
10 that, so I would appreciate that. Thank you.

11 Let me ask you, Mr. Goldenberg, if you could tell
12 me, what happened to the sales that those distributors were
13 making? Are their customers now being provided to by other
14 distributors, or did domestic producers pick up those sales?

15 MR. GOLDENBERG: I would say that most of the
16 products being sold that were sold to the people that went
17 out of business are being sold in the normal -- I don't
18 think that there has been a real shift with that respect. I
19 think they are probably buying from -- people are being
20 supplied from just other people through the same
21 manufacturers as it was prior to their demise. Did that
22 answer your question?

23 COMMISSIONER KOPLAN: That's helpful, and any
24 additional detail that I can get, either from Mr. Mindich or
25 Mr. Hericks. If you have any information on that, I would

1 like to hear from you now, and any additional detail for the
2 post-hearing I would like to get as well.

3 MR. MINDICH: David Mindich. As Jason stated
4 earlier, a lot of the loyalty in our industry is based on
5 the sales person for my company or a competitive company
6 that calls on the dry cleaner because they are the ones that
7 have the relationship. These three companies, USA Clean and
8 Cleaner Sales, specifically, I hired three of their sales
9 people and brought over the business to my company. So when
10 you ask how are those customers being served, there is still
11 the same amount of sales people in our industry; it's just
12 they are working for different companies and taking their
13 orders for different companies.

14 COMMISSIONER KOPLAN: Thank you. Mr. Hericks?

15 MR. HERICKS: We've had some smaller distributors
16 go out of business in our area. We had one in Houston two
17 years ago who went out of business, and he moved his
18 operation up to Dallas. So we fought him in Dallas, and he
19 went out. We had a larger distributor leave the Dallas
20 market last year. But the backfill, I think, has come
21 through the relatively new distributor in Houston, who has
22 basically been selling 90 percent of the Chinese hangers.
23 We're seeing a few old players go out and new players move
24 in.

25 COMMISSIONER KOPLAN: Thank you. Let me ask the

1 three of you this. I can't get into the specifics because
2 it's business proprietary information, but I've come across
3 an allegation in the record that whenever a domestic price
4 increase is announced by a domestic manufacturer, on the
5 heels of that each of the other domestic producers follows
6 up almost immediately with identical announced price
7 increases. Has that been the experience that the three of
8 you have found? And I wouldn't limit the response to simply
9 a price increase. Let's say there is a price decrease. Has
10 that been the experience that the three of you have found to
11 be the case?

12 MR. MINDICH: David Mindich. You're asking the
13 suppliers?

14 COMMISSIONER KOPLAN: No. I'm asking --

15 MR. MINDICH: -- the distributors?

16 COMMISSIONER KOPLAN: Yes.

17 MR. MINDICH: I don't find that just with hangers.
18 I find that with every product line I sell. For instance,
19 the plastic industry is affected by oil. Two days before I
20 came here, I got a letter from different plastic
21 manufacturers that are all going up the same amount because
22 their resin costs increased. So, yes, we do get a letter
23 from one. We usually get the letters from their
24 competitors, but it is spread throughout the industry.

25 COMMISSIONER KOPLAN: Mr. Hericks?

1 MR. HERICKS: The industry did send a letter
2 out -- I believe it was last year -- a letter of increase in
3 hanger prices. I actually went into my computer and raised
4 everybody's prices to meet the new prices I was going to be
5 charged. My salesmen went out there and were almost laughed
6 off the street. You're going to increase prices when I can
7 buy these over here already cheaper than what you're selling
8 to me today. I echo what David said. Usually if there is a
9 price increase from one chemical company, we get a price
10 increase from the others, so it tends to follow no matter
11 what the product is.

12 MR. GOLDENBERG: I, too, would agree with your
13 statement there on the way up. On the way down, however,
14 traditionally in the past prices coming down have been
15 negotiated at separate times. I guess for some of the more
16 savvy distributors out there that read the Steel News and so
17 on and find out when the price of steel is coming down, it's
18 time to go back to the manufacturer and beat him up.
19 However, since the Chinese have become quite prevalent in
20 the last two years, there have been blanket decreases as
21 opposed to negotiated letters sent out saying we are
22 formally decreasing the price of our products to all of our
23 distributors. So it's changed a little bit in the last
24 while.

25 COMMISSIONER KOPLAN: Let me ask the same question

1 of the three domestic producers as to what their pricing
2 practices have been.

3 MR. MAGNUS: Milton Magnus with M&B Metal
4 Products.

5 COMMISSIONER KOPLAN: Yes.

6 MR. MAGNUS: We usually have price increases on
7 the heels of steel increases, which all of us feel, and
8 prices -- it's such a major factor in the decision to
9 purchase hangers from our distributors or the dry cleaners,
10 if we're not competitive with our competition, we won't sell
11 hangers.

12 COMMISSIONER KOPLAN: Let me put it to you this
13 way. If you, because of that, announce a \$10 increase, do
14 you find that your domestic competitors, within a matter of
15 days or a week, follow suit?

16 MR. MAGNUS: It happens about 60, 65 percent of
17 the time.

18 COMMISSIONER KOPLAN: What happens?

19 MR. MAGNUS: It happens 60 or 65 percent of the
20 time.

21 COMMISSIONER KOPLAN: Sixty to 65 percent of the
22 time?

23 MR. MAGNUS: Yes.

24 COMMISSIONER KOPLAN: If you announce one, the
25 others follow right up. Mr. Goldman, is that your

1 experience?

2 MR. GOLDMAN: Yes. Joel Goldman. Wire rod
3 represents a good third of the cost of our direct materials,
4 and naturally if wire rod increases, we must try, at least,
5 to increase the price of our product. If wire rod is
6 increasing for me, for our company, it is increasing also
7 for our competitors. This is a commodity that's bought on
8 the open market. Well, basically, that's all I would like
9 to say on that.

10 COMMISSIONER KOPLAN: Thank you. Mr. Roby?

11 MR. ROBY: I only have one, the latest example,
12 because that's all of the time I've been here, and I would
13 say that the letters go out, and people follow suit, but if
14 we're sitting here believing that I could send Jason a
15 letter raising his price eight percent, and that's what was
16 going to happen, that's simply wrong. It becomes an
17 opportunity to open up negotiations with your customers, and
18 every customer is handled individually. You know, if it
19 said 20 percent, in the end the number will be what is
20 negotiated on an individual, customer-by-customer basis.

21 COMMISSIONER KOPLAN: Well, I appreciate the fact
22 that if you're selling on the West Coast in California, and
23 Mr. Goldman doesn't sell there, that one wouldn't be
24 following the other, but I was interested in those markets
25 where you're competing with each other.

1 MR. ROBY: I do think, just in my short tenure,
2 the dynamics, I think, as history would show, there were
3 regional pricing in this industry where, depending upon what
4 region of the country perhaps. But with the advent of the
5 Internet, with companies with further reach, I don't
6 believe, if you went through and did a study, and I don't
7 have it with me, but I would suggest that there is not a
8 whole a lot of difference in what's going on the West Coast,
9 the East Coast, and the South, and pick a place. I mean,
10 there just isn't that kind of room.

11 COMMISSIONER KOPLAN: Thank you, Mr. Roby, and I
12 want to thank the chairman for letting me go over my time.
13 Much appreciated.

14 CHAIRMAN OKUN: Thank you. On the wire rod costs,
15 I just want to make sure, when we're looking at the raw
16 material costs that the staff has gathered, you, Mr.
17 Goldman, had just mentioned the one-third figure, is that in
18 raw material? If we look at raw material, one-third of that
19 cost would be wire rod?

20 MR. GOLDMAN: One-third of the raw material costs,
21 yes.

22 CHAIRMAN OKUN: Raw material costs. And what's in
23 the rest of your raw material costs?

24 MR. GOLDMAN: One-third of raw material and labor.
25 One-third of direct costs as opposed to including overhead,

1 manufacturing overhead.

2 CHAIRMAN OKUN: Okay. Mr. Magnus or Mr. Roby, is
3 that consistent with --

4 MR. ROBY: I would say that one-third of our
5 overall cost is steel, but we could follow that up in the
6 post-hearing with an analysis of that.

7 CHAIRMAN OKUN: Okay. Mr. Magnus?

8 MR. MAGNUS: I would agree with Mr. Roby.

9 CHAIRMAN OKUN: Okay. So you understand when you
10 follow up, I'm just trying to understand when we look at raw
11 material costs, what we're looking at in that category, the
12 way we collect it and the way the questionnaires have been
13 filled out.

14 MR. ROBY: You're asking what raw material is.
15 It's fairly simple. It's typically steel, then you have
16 paint, and then you have corrugate and paper, which could
17 either be a strut tube or the caped paper itself, generally
18 speaking, and then, to a minor degree, latex-type products
19 would be in there.

20 CHAIRMAN OKUN: That would be included in there.

21 MR. ROBY: Yes.

22 CHAIRMAN OKUN: Okay. Okay. That's helpful.
23 I'll look through that.

24 There were a couple of other things I wanted to
25 follow up on before I turn to some of the legal questions.

1 The other thing I've been curious about, as you read the
2 newspapers or look around town, is what impact do you think
3 there has been of the box-store-type cleaners in terms of
4 pricing. I'm not sure if this is distributors who would be
5 the best ones to answer this, but the Dry Clean Depot, what
6 kind of impact they have had on hanger prices, if any.

7 MR. MINDICH: David Mindich. Can you just
8 elaborate? You said box store. Do you mean the drop store?

9 CHAIRMAN OKUN: The Dry Clean Depot, these big,
10 you know, like Cosco-type dry cleaning places which are very
11 low prices. I'm curious whether you've seen anything in the
12 industry about them or whether they are still small enough.

13 MR. MINDICH: There is virtually no impact on
14 hanger prices. Supplies in general are a very small
15 percentage of a dry cleaner's business, hangers being a
16 percentage of that. When you're dealing with the cost of a
17 hanger, you're talking less than a penny. I mean, the
18 difference; there is really none.

19 CHAIRMAN OKUN: Okay.

20 MR. GOLDENBERG: I think I could add, in the New
21 York market certainly there are no what I will call Cosco-
22 type dry cleaning establishments, and not only that; each
23 individual establishment, you know, if you've got an owner
24 out there that's lucky enough to own two or three stores,
25 and he's become a big operator. These are all independent,

1 little operations, thousands of them, certainly in my
2 marketing area.

3 CHAIRMAN OKUN: Okay. Mr. Hericks, you're shaking
4 your head.

5 MR. HERICKS: Yes, I agree. In Texas, we have
6 both large, big box that are high priced, and we have the
7 large, big box that are the discounters. We sell them
8 hangers at the same price.

9 CHAIRMAN OKUN: Okay. And then just so I'm clear
10 on the testimony about the hangers being commingled, I
11 guess, when I'm looking at my dry cleaners -- these are the
12 things you do as a commissioner -- I'm looking at their
13 garbage, looking at the boxes that their hangers come in,
14 and they had United boxes there. And I was curious, when
15 you're talking about U.S. distributors selling different
16 types of hangers, do you keep them in the same boxes, and
17 would those boxes contain -- if it's a domestic producer,
18 they would have both Chinese and U.S. hangers, but it would
19 be in a United box that you, as a distributor, and I'm now
20 looking at the distributors, that box would still say the
21 company who produced it as opposed to any distributor name?

22 MR. HERICKS: We also commingle our hangers in our
23 warehouse. We do have some customers that have loyalty,
24 like, to M&B or Cleaners Hangers. They have the Cleaners
25 Hangers salesman come by their place all the time, and, by

1 golly, they want to buy Cleaners Hangers, so we send them
2 Cleaners Hangers. The majority of our customers just want a
3 hanger, and they will order what we call our generics, and
4 that could be a Chinese, that could be a U.S.-made, but we
5 just have a pile over there of generics, and we just pull
6 them and ship them as a generic, and then if the customer
7 does request a specific hanger, then we also send him that.

8 CHAIRMAN OKUN: Okay.

9 MR. GOLDENBERG: We do not rebox any products.
10 Everything comes sealed, palletized, wrapped, and sealed,
11 and it's just load them up and ship them out.

12 CHAIRMAN OKUN: Okay. Mr. Mindich?

13 MR. MINDICH: I agree with what both Jim and Jason
14 said. I think what you were asking, part of your question
15 was, do we get rebox from the producers? The answer is yes
16 to that. They are buying whatever imported hangers they
17 buy, and I don't know the difference, what imported hangers
18 they have or domestic hangers they have, but they do put in
19 a box that says United Wire or M&B or CHC in their case, and
20 it just says the same product that they had before. The
21 only difference would be on the bottom somewhere it would
22 say "made in China."

23 CHAIRMAN OKUN: Okay. That is what I was
24 wondering about. The other thing, just so I'm sure about
25 it, when the dry cleaners are ordering hangers, and they

1 order a shirt hanger and a strut hanger, would you split
2 their order between different companies? In other words,
3 I'm trying to figure out, do the domestic producers lose
4 business in everything, or can they still sell whatever they
5 are selling more of now? Do they still sell as much of
6 that, even though the Chinese have taken over a particular
7 type of hanger?

8 MR. GOLDENBERG: Jason Goldenberg. The people
9 that are brand specific are brand specific. The people that
10 are not brand specific; it does not matter. There is no
11 difference between a Cleaners Hanger or United Wire unless
12 the guy is asking for it.

13 CHAIRMAN OKUN: But for you as a distributor, do
14 you want to keep all of, like, everything you're buying from
15 whatever company, do you try to sell all of the different
16 types of hangers?

17 MR. GOLDENBERG: Well, I'm a little bit different
18 than most distributors. I operate a company that's
19 considerably large out of a very, very small area of space.
20 So carrying -- you know, CHC makes an 18-inch, caped hanger
21 plain, and United Wire makes an 18-inch, caped hanger plain.
22 A product like that that's a little bit slower moving is not
23 something that I need to double inventory, but when you get
24 involved in struts and capes and shirt hangers, we stock
25 both. Okay?

1 CHAIRMAN OKUN: Okay. Mr. Mindich?

2 MR. MINDICH: David Mindich. To my fault, I stock
3 the whole lines of all of the companies I deal with usually.
4 Shirt hangers, specifically, I'm carrying an 18-inch, United
5 Wire shirt hanger, an 18-inch, M&B shirt hanger, and two
6 Chinese 18-inch shirt hangers. There is no difference.
7 There are occasions where somebody who has been using United
8 or M&B over time will say, well, send me the M&B or the
9 United one as long as the price is the same, and we do.

10 CHAIRMAN OKUN: Okay. And I know Vice Chairman
11 Hillman, I think, was going through this in terms of whether
12 the prices of the different hangers moved together, and I
13 was trying to figure out if that is impacted by the dry
14 cleaning establishment saying, well, I'll take the Chinese
15 hangers because they are the cheapest, but do you still sell
16 United's strut hangers or caped hangers or whatever else it
17 is because they are not as prevalent there?

18 MR. MINDICH: You know, I'm hearing it a little
19 bit in all of the questions. Unfortunately, in our industry
20 there are brand names, three of them sitting in front of
21 you, but, to me and to my customers, there really isn't. I
22 mean, it's not like send me a Coke or send me a Pepsi. I
23 mean, they just want a hanger, and it's really as simple as
24 that. You're dealing with mostly mom and pop dry cleaners
25 that don't care what they get, and even the customers that

1 want United, if I go send them M&B or send them Chinese
2 because I'm out of the other one, they are not going to send
3 them back and say, oh, I wanted that one. They won't even
4 notice that I sent it to them.

5 CHAIRMAN OKUN: Okay. That's helpful. Again, I
6 just wanted make sure that I understood the testimony about
7 what the different hangers were doing.

8 I wanted to turn a little bit to some legal
9 questions, and, Mr. Wait and actually Mr. Malashevich,
10 you've touched on a couple, too, so I wanted to tie it in
11 and have you provide some answers, one of which goes to the
12 allegation about whether we should count the import volume
13 of the domestic producers who import and how we should
14 evaluate that in looking at the rapidly increasing volume
15 requirement of this particular statute.

16 So I wanted you to comment on that in terms of --
17 I understand there is no related-party provision in Section
18 421 and that the statute didn't incorporate the Section 201
19 406 rule of excluding the imports. But looking at the
20 statute, where it's silent on that, I wanted your legal view
21 of how we should treat the absence of that requirement and
22 what you would point to in either how the statute refers
23 back to 406 or otherwise to make that argument. And
24 obviously you can do this post-hearing, but I do want to
25 hear, since I think it's central to those in opposition to

1 relief, central to their argument of how we look at the
2 import volume.

3 MR. WHITE: Yes, Madam Chairman. Fred White. We
4 will address that fully in our post-hearing brief, but
5 briefly now, in order to engage in some discussion on this
6 issue, as you surmised, we do believe and would urge the
7 Commission to consider imports by domestic producers with
8 total imports from China in making your analysis in this
9 case.

10 You mentioned, Madam Chairman, that 421 is silent
11 on this issue. Congress is generally not very silent on
12 many things when it addresses legislation, and I think it's
13 significant that in this case, when it had before it other
14 provisions of law which specifically address this issue in
15 the way that you indicated, it did not simply endorse those
16 other approaches. I'm mindful now that what I would like to
17 say, I think, has to be said in the post-hearing brief
18 because it gets into APO information because, as the
19 commissioners know, in this case there are significant
20 difference in behavior by different domestic producers when
21 it comes to their treatment or viewing of imports of hangers
22 from China. And I think that fits into our legal analysis
23 as to why the Commission should consider those imports on a
24 legal basis as well as, given the facts of this case,
25 conditions in the market, all of the other indicators the

1 Commission looks at should be included.

2 CHAIRMAN OKUN: Okay. I appreciate those
3 comments. I think I might have some followups as well, but
4 my time has expired, so I will turn to Vice Chairman
5 Hillman. Thank you.

6 MR. MALASHEVICH: Excuse me, Madam Chairman. May
7 I make one small additional point? As you know, I'm not a
8 lawyer, but I do think it may have escaped today's
9 questioning that, as a matter of public record, I saw a
10 press release put out by Laidlaw that Laidlaw is a joint-
11 venture owner of a production facility in Shanghai, China.
12 That is a very distinct aspect of their pattern of doing
13 business versus the other manufacturers importing from
14 China. I wanted to make sure that did not get lost in the
15 discussion, and that also pertains to Commissioner Koplan's
16 question earlier about Laidlaw. Obviously, it's awkward for
17 the industry people to address that in a public hearing, but
18 we will have quite a bit more to say on that subject in the
19 post-hearing brief.

20 CHAIRMAN OKUN: Okay. I appreciate those
21 additional comments. Vice Chairman Hillman?

22 VICE CHAIRMAN HILLMAN: Thank you. I guess I
23 would like to follow up on this line of questioning and
24 would sort of join the chairman in asking for this analysis,
25 but I would ask it on two fronts, not only on this issue of

1 the statute's lack of a removal of related parties. There
2 is not in this statute the notion that a related party is
3 someone that imports or someone that is or is not in any way
4 controlled or owned by a foreign entity would be taken out
5 and their financial data taken out. I do think that is an
6 issue that we need to hear you on in terms of what should we
7 make of the fact that this statute does not have provisions
8 calling for the exclusion of a related party, and what
9 should we read into that.

10 But, secondly, I would ask you to also think about
11 the issue that Respondents are raising, and I have to say
12 I've heard some testimony that would suggest that there may
13 be some validity to it, that the impact of the imports that
14 are brought in by the domestic producers is simply less
15 than, maybe not zero, but less than the disruptive impact of
16 imports that are brought in by nonrelated parties, not by
17 the domestic producers, that because they are commingling
18 them, because they are pricing them as an average of what
19 they are selling, that the impact on the industry by reason
20 of that set of imports is in that sense different from the
21 impact of the imports by the completely unrelated, flat out,
22 straight up, normal, run-of-the-mill imports.

23 First of all, I wanted to know whether you would
24 agree with that, and to the extent you do, if you can
25 address in your post-hearing brief whether the Commission

1 has ever looked at imports in that way, looked at them
2 differently, saying these imports have X amount of impact,
3 these imports have something less than X or different than X
4 because of who is doing the importing. Is there a precedent
5 for doing that, and how do we go about assessing the overall
6 impact, given this kind of mixed package?

7 MR. WAITE: Yes, Madam Vice Chairman, we will
8 address that. And to answer the question that you've asked
9 toward the end of your discussion, in terms of whether
10 imports by domestic producers have had a different impact
11 than imports by I guess what we might call traditional
12 channels of importers and distributors, we will address that
13 very directly and very fully in our post-conference brief.
14 Again, it gets us very close to behavior and pricing by the
15 different domestic producers that I feel very uncomfortable
16 discussing in a public forum.

17 VICE CHAIRMAN HILLMAN: Fair enough.

18 If I could just ask that for the record and you
19 can address it in your post-hearing.

20 MR. WAITE: Yes we will.

21 VICE CHAIRMAN HILLMAN: If I could then turn to a
22 different issue, and that gets back to some of the questions
23 that Commissioner Miller was asking in terms of consumption.
24 In again the confidential exhibit that you submitted. I'm
25 looking at Exhibit 4-4 where you kind of adjusted the import

1 figures I think to more fully reflect -- First of all I want
2 to make sure I understand the adjustment that you've made in
3 terms of adjusting the import figures to try to show us what
4 you think really was going on in terms of consumption.

5 But my question goes both to how did you come up
6 with those imports figures, just to make sure I understand
7 it. And secondly, even looking at your data, granted, it
8 does not show the same consumption pattern as ours does
9 because you've bumped up the import numbers which has had an
10 effect on overall consumption. It still would show, in my
11 view, a relatively significant decline in consumption in
12 2001 and 2002, and yet the testimony that I've heard at
13 least from the distributors does not suggest that you've
14 seen a significant decline in the consumption, in the use of
15 these hangers.

16 So I'm trying to see where if anywhere we either
17 have holes in the data or whether the witnesses would have
18 anything further to say about whether in fact in 2001 and
19 2002 we saw anything resembling some decline in the
20 consumption of hangers.

21 MR. MALASHEVICH: In response to the first part of
22 your question Commissioner Hillman, there is a worksheet, I
23 believe it's in an appendix in the pre-hearing brief that
24 delivers I can't imagine a more detailed explanation of
25 exactly how we made that calculation. If there is something

1 unclear --

2 VICE CHAIRMAN HILLMAN: I just wanted to make sure
3 that I understood that that's where the numbers here came
4 from.

5 MR. MALASHEVICH: Yes. And we'll be happy to work
6 with staff if there's something that's not clear in that
7 explanation.

8 Also we view that adjustment as having been
9 conservative because we took into account the two dozen or
10 so known importers that we knew were for one reason or
11 another making imports. I think there is some universe of
12 importers not known in our list that accounts for some
13 additional quantum of imports that are not accounted for.

14 Finally of course the Commission's traditional
15 analysis, and there's no reason to depart from it, but it
16 does measure apparent consumption. It doesn't adjust for
17 changes in inventory downstream. I think the combination of
18 those factors is really what would cause the data to be in
19 sync with the testimony you've heard today.

20 VICE CHAIRMAN HILLMAN: And just so I understand
21 it, I heard your testimony, again this is going to the
22 distributors, as basically indicating, again there's been
23 consolidation from the distribution industry, I heard that
24 loud and clear which makes it hard. I mean, Mr. Mindich
25 you're testifying that you're picking up all of these

1 accounts so your business is up. But I'm trying to get a
2 sense of if you stepped back from it and tried from our
3 perspective to get a sense of whether overall, nationwide,
4 to the extent that you can kind of sense it, has demand
5 changed much over this period of the last five years in
6 terms of consumption of hangers?

7 MR. MINDICH: During the last two years I would
8 say business was down ten percent because of the economy.
9 What you asked me before, is the economy to blame? It is to
10 blame for some of it, but the pricing is down 30-40 percent.
11 So the answer to your question is yes.

12 VICE CHAIRMAN HILLMAN: You've seen about a ten
13 percent decline in consumption in the last two years.

14 MR. MINDICH: Yes, and I've heard that's
15 consistent with the entire industry.

16 There's two distributor groups within the
17 industry, alliances as you would say, buying groups,
18 alliances. I'm a member of one of them so I speak to
19 different distributors in all different areas of the
20 country. Every single market pretty much is covered by a
21 different distributor and they're all saying about the same,
22 ten percent or so.

23 MR. GOLDENBERG: Jason Goldenberg. I think I
24 would agree somewhat with what David said. And if I could
25 point out again that one distributor that I compete with in

1 my marketplace, our volume in the last couple of years has
2 been off close to 20 percent and I attribute about 10
3 percent of that to market conditions. New York has not been
4 quite the same since 9/11 and so on.

5 However, having said that, this competitor of mine
6 by my best guess is running about a \$6 million business now.
7 A \$6 million business based on, again, by my best guess,
8 about a 75 to an 80 percent product mix of wire hangers. So
9 that is a significant amount of wire hanger volume.

10 VICE CHAIRMAN HILLMAN: That's helpful.

11 I guess if I could turn then to the issue of the
12 remedy that you're proposing. First, again, I would ask Mr.
13 Waite as a legal matter. It is not common, at least that
14 I'm aware of, for the Commission to recommend a specific
15 duty. I wondered if you could give us a little bit more on
16 any precedent or any guidance that you would give us.
17 Generally I would say the tariff schedules and trade
18 negotiators and everyone else favors ad valorem duties over
19 specific duties, and you could go on forever about the
20 reasons why that is. But I'm trying to make sure we feel
21 like we have what we need in terms of precedent if we are to
22 depart from that and take your suggestion that if we reach
23 the remedy stage that you're proposing a specific duty. I'm
24 wanting a little bit more about why we should feel that was
25 appropriate.

1 And I will tell you, part of my concern in this
2 case is you have a fairly significant variant in the price
3 between a standard shirt hanger and a caped hanger and a
4 strut hanger which obviously means if you're applying a
5 specific duty, the ad valorem equivalent of that specific
6 duty is quite different depending on whether you're applying
7 it to the shirt hanger as opposed to the strut hanger which
8 also gives me more discomfort, I will say, with the notion
9 of applying a specific duty to a product that has these very
10 great variants. The equivalent ad valorem duty would be
11 quite different.

12 Which leads me to sort of why should we really be
13 thinking about a specific duty in this instance? I
14 understand the argument about the Chinese can lower the
15 price, but at some level the price, you're still adding a
16 duty onto it. You're just calculating it in a different
17 way. You're still going to, if the price goes way down, I
18 don't care what the specific duty is, it still isn't going
19 to be overcome if the price decline is enough.

20 So it's just not clear to me why we should really
21 seriously engage on that notion of a specific duty.

22 MR. WAITE: Madam Vice Chairman, let me address
23 the legal aspect of the question that you asked and then if
24 you wish Mr. Malashevich can again address the practical
25 reasons why we made this proposal, which we acknowledge is

1 unusual but not unprecedented in trade relief proceedings.

2 There is nothing in the statute, of course, that
3 limits the Commission on its selection of a remedy in a 421
4 proceeding. Again, somewhat different from other remedy or
5 safeguard provisions with which we are all familiar.

6 We look very carefully at an appropriate remedy.
7 Again, the statute talks about a remedy that will eliminate
8 the market disruption or prevent further market disruption
9 and we're mindful of that. But as a practical matter the
10 industry is also mindful that analogous to a Section 201
11 investigation, during any period of relief this industry
12 would be taking affirmative steps to establish itself as an
13 effective competitor when the relief inevitably ends.

14 We understand again that Section 201 addresses the
15 market disruption side of the equation rather than the
16 adjustment side, but we were looking at both for legal and
17 for piratical reasons.

18 We looked at this very long and very carefully, as
19 I've indicated, because we know that a recommendation for a
20 specific duty, especially now as you've indicated Madam Vice
21 Chairman, when the trends in international trade discussions
22 and treatment of imports has moved toward an ad valorem
23 standard in dealing with imports generally, but not all.
24 You can look at the harmonized tariff schedule of the United
25 States today and there still are many products that carry a

1 specific duty. Some indeed carry both an ad valorem and a
2 specific duty.

3 We were looking for a remedy that we felt would be
4 meaningful and effective, that would deal with market
5 disruption, and in dealing with market disruption give the
6 industry an opportunity to make those adjustments or changes
7 that they have, the Petitioners at least have all documented
8 to the Commission that they would do in the event of relief
9 being given.

10 Now we will respond in our post-hearing brief to
11 your question about precedent. I'm afraid, however, the
12 precedent is going to be indeed precedentially old precedent
13 because as we all know, in recent proceedings and certainly
14 in the last decade or more when relief has been discussed in
15 terms of tariff adjustments, it's been generally as an ad
16 valorem change.

17 VICE CHAIRMAN HILLMAN: Mr. Malashevich, I think
18 I'm going to have to come back to you because the red light
19 has been on for quite some time, but I will do that in the
20 next round.

21 Thank you.

22 CHAIRMAN OKUN: Commissioner Bragg?

23 COMMISSIONER BRAGG: Thank you, Madam Chairman. I
24 just have a few wrap-up questions.

25 This question hasn't been asked and Mr. Waite, I

1 think it needs to be. I'd direct this to you.

2 Couldn't I argue that the domestic industry is
3 readily adjusting to the availability of the subject imports
4 by using the imports itself, and we've heard about the co-
5 importing and co-mingling of the hangers. Therefore, on
6 what basis can the domestic industry be said to have
7 experienced market disruption, or to confront the threat of
8 market disruption by reason of the subject imports.

9 MR. WAITE: Madam Commissioner, it is true that
10 some of the domestic producers have engaged in importing
11 hangers from China during the period of this investigation.

12 In the case of the Petitioners who have imported
13 hangers, it has been as you've indicated, a self-defense
14 mechanism to try to remain competitive. But I believe that
15 you heard earlier this morning the domestic producers say to
16 you that if the imports continue unabated, they will in fact
17 not be able to continue to make hangers in this country.
18 That the markets are being disrupted, they are losing
19 customers, pricing is plummeting, imports are appearing in
20 all markets among all customers, all distributors, all
21 regions, and that without meaningful relief, they will
22 simply perhaps become distributors themselves, not making
23 any hangers at all.

24 I'm not sure that's fully responsive to your
25 question, but if there's something further you would like me

1 to address I'd be delighted to try.

2 COMMISSIONER BRAGG: Why don't you do that. I
3 think you've given me a good response for now, but if you'd
4 take a more detailed look at it and think about it a little
5 more for your post-hearing submission.

6 MR. WAITE: We shall do that.

7 COMMISSIONER BRAGG: Thank you.

8 My remaining questions concern remedy and I would
9 ask that you just merely address those in your post-hearing
10 submission rather than going over them today.

11 MR. WAITE: We shall do that as well.

12 COMMISSIONER BRAGG: And I'll read them for the
13 record.

14 First, if you would address how long a period do
15 you believe is necessary for the recommended relief to
16 prevent or remedy the market disruption.

17 Second, if you would discuss in greater detail
18 what you believe to be the short and long term effects of
19 the implementation of your proposed remedy and what it is
20 likely to have in the petitioning domestic industry, other
21 domestic industry, and all customers.

22 And third, if you would discuss also in greater
23 detail what you believe to be the short and long term
24 effects of not taking the recommended action on the
25 petitioning domestic industry, its workers, and the

1 communities where the production facilities of the domestic
2 industry are located as well as on other domestic
3 industries.

4 You have addressed some of those today, but again
5 I would request that they be responded to in greater detail
6 in the post-hearing submission.

7 MR. WAITE: We shall do that.

8 COMMISSIONER BRAGG: Thank you, Mr. Waite.

9 Again, I thank the panel for their responses to my
10 questions. They've been very helpful.

11 CHAIRMAN OKUN: Commissioner Miller?

12 COMMISSIONER MILLER: Thank you.

13 I want to follow up first on Vice Chairman
14 Hillman's questions about the remedy. Maybe I'll give Mr.
15 Malashevich the opportunity to finish the answer if his
16 answer is going to -- I'm still not sure I understand why a
17 specific tariff is preferable to an ad valorem tariff.

18 I certainly understand, we've seen industries
19 before that have concerns about price-based remedies and the
20 response of the foreign producer to a price-based remedy.
21 Usually in those cases the industry has sought quotas, maybe
22 tariff rate quotas, but oftentimes quotas. Speaking for
23 myself, I usually prefer a tariff-based remedy, but in
24 instances where I have agreed that there was a problem with
25 a price-based remedy I have recommended quotas.

1 So Mr. Malashevich, if you could tell me, again,
2 what's the advantage of the specific over the ad valorem,
3 and why specific as opposed to a quantity based remedy?

4 MR. MALASHEVICH: I think that part of the answer
5 lies in Commissioner Hillman's question, actually, because
6 it's a reason that I really neglected to mention among the
7 reasons in my testimony. The beauty of a specific remedy is
8 the very fact that Commissioner Hillman indicated. That is
9 if you take a number, let's just hypothetically say one
10 cent, in fact will be a higher percentage ad valorem duty on
11 a lower priced product than they would on a higher priced
12 product.

13 At the very same time, the injury is greatest at
14 the low end. So I think it is entirely intellectually
15 consistent with the nature of how this problem has evolved
16 that this specific remedy would have a higher percentage
17 impact than the lowest price product, and the least
18 percentage impact on the highest priced import. So that is
19 in essence a deliberate aspect and one very advantageous
20 aspect of the specific remedy, specific duty, excuse me,
21 that would be more problematic mechanically for an ad
22 valorem tariff.

23 Secondly, as the industry has emphasized to me
24 again and again, in the case of purchasers, in the case of
25 dry cleaners, or indeed the importers, this is a very cash

1 dependent business. The buyers, the dry cleaners
2 ultimately, the importers don't extend credit. Much of the
3 product is not pre-sold. It's brought to the United States,
4 it's on the dock, and then they send flyers or whatever the
5 marketing vehicle is, and expect to sell it for cash. Come
6 and pick up your container and give us your cash. End of
7 story.

8 We think that knowing that every hanger that comes
9 in has, in my hypothetical example, an additional cent tax
10 in effect to pay is a more discouraging aspect on importers
11 to cut price than if they paid a percentage of whatever
12 price they paid. The lower the price the lower the cash
13 outflow they'd be making in the form of the tax.

14 So that actually is part of the fundamental
15 reasoning that I neglected to get into in my testimony, but
16 it arose from discussions with the industry members in terms
17 of how the trade operates.

18 COMMISSIONER MILLER: That still doesn't respond
19 to the quota issue.

20 MR. MALASHEVICH: I'll let the industry speak for
21 themselves on this, but I think it's the prevailing view
22 that quotas A, would be more difficult to enforce on a
23 product like this; and secondly, even if there were a quota
24 of whatever amount. Let's take it 50 percent of what's
25 coming in now just as an example. That would not reduce the

1 price pressure from a first come first served approach to
2 those filling whatever part of the quota they can get.

3 So there would be a situation like I think the
4 Commission has confronted in other industries, where the
5 presence of a quota can actually be quite disruptive during
6 the course of the year because there's a rush to fill the
7 quota in the opening weeks or months of whatever period
8 there is, and that in essence prolongs the market
9 disruption, if you will, but in a different form.

10 COMMISSIONER MILLER: I appreciate that. That's
11 helpful.

12 Let me go back if I could for a minute to one
13 other area. Again, Mr. Kimball, you made some interesting
14 comments regarding the Table 5 of the Respondent's brief
15 that shows this compared pricing of products subject to
16 import competition and those not. I know I'll have some
17 questions this afternoon about where that data comes from.

18 When Vice Chairman Hillman was sort of exploring
19 this issue with the producers, you Mr. Roby made a comment
20 about I think it was the uniform hangers that you talked
21 about, you thought there was some price pressure there
22 recently because of a shift of capacity. It was a fairly
23 short comment because the time expired, no other producer
24 had the opportunity to respond to it.

25 But whatever we find on the data at the end of the

1 day, and I took your point, Mr. Kimball, about it kind of
2 depends on what you use as your base period as to whether
3 you see a decline or not. I see what you're saying.

4 But now from the point of what the producers know
5 is going on in their, for their pricing of products that are
6 in our pricing theories and those that aren't.

7 Mr. Roby, I too your comment to mean well, you
8 might see a decline in some timeframe, you can tell me what
9 you meant, because of this capacity issue. Is that right?

10 MR. ROBY: Yes, what I said was if we're not
11 selling to the distributors most hanger companies will go
12 after what they can compete in and that would be the
13 industrial business. So I am suggesting that there is a
14 direct link between the low priced Chinese imports in the
15 distributor market and that pushing over into the uniform
16 rental market as a direct cause of price pressures in
17 uniform rental. I did say that, and that is true.

18 COMMISSIONER MILLER: So for your company you
19 would say that some recent timeframe, or since the Chinese
20 have been in the market for the commercial hangers, prices
21 for the industrial market, and you mean uniform basically,
22 have also seen some decline.

23 MR. ROBY: I believe that to be the case.

24 COMMISSIONER MILLER: That's your explanation.

25 I'm trying to understand the different things that

1 feed into the pricing because at the end of the day we'll
2 sort out the data and it will tell us something and I just
3 want to understand whatever it tells us.

4 Mr. Magnus, what about you?

5 MR. MAGNUS: Yes, I've seen a little decrease in
6 the uniform rental prices, but nowhere near the 25 percent
7 that we've seen in the imported cape and shirt prices.

8 We all have a certain amount of hangers that we
9 need to produce to try to be profitable. The fewer hangers
10 we make the more each one of them costs. So if we can be a
11 little aggressive and go after some business that we don't
12 have in the industrial laundry business where the Chinese
13 aren't and can demand a higher price than we do in the dry
14 cleaning business, we do that.

15 COMMISSIONER MILLER: Mr. Goldman?

16 MR. GOLDMAN: Yes, Joel Goldman.

17 I would agree with Mr. Magnus exactly.

18 COMMISSIONER MILLER: So what you're saying is we
19 might see some decline in these other products but not at
20 the same magnitude that you see in the products that are
21 subject to Chinese competition?

22 MR. MAGNUS: Yes, that's what I said.

23 COMMISSIONER MILLER: All right. At the end of
24 the day we'll have some data tables and we'll see what the
25 numbers tell us, and hopefully they'll be consistent with

1 what you all tell us.

2 Thank you. I have no further questions. You all
3 have been very helpful today and I appreciate your time.

4 I was interested very much in the related parties
5 questions that the Chairman and Vice Chairman asked, but
6 they've already covered that and you'll be covering it in
7 your post-hearing submissions. I appreciate that.

8 CHAIRMAN OKUN: Commissioner Koplan?

9 COMMISSIONER KOPLAN: Thank you Madam Chairman.

10 I would like to join in the last comment. Starting
11 with the Chairman who's questions centered on 406, 201, and
12 421.

13 Mr. Waite, you made a comment along the line, once
14 we got into that line of questioning, you want to make sure
15 that the domestic imports of subject product are included in
16 total imports. I think you made that comment when you were
17 responding, did you not?

18 MR. WAITE: That's correct.

19 COMMISSIONER KOPLAN: For me that's not the issue.
20 For me the issue is how do I analyze the impact of what I'm
21 looking at here on the issue of search and the issue of
22 causation?

23 Usually when I -- This is me now. when I see a
24 domestic company bringing in subject product I hear the
25 argument that it's supplemental only. I don't usually hear

1 the argument that it's to survive. And at the same time I
2 hear from the distributors that if you go out and you buy
3 the Chinese product and you bring it in at a price
4 apparently that's advantageous to you over what it can be
5 manufactured here, you don't pass that on. You sell for the
6 same price to your customers as you would otherwise. So
7 that doesn't get passed on.

8 At the same time you're leaving your facilities
9 operating at a capacity utilization level that is, and I'm
10 characterizing it, I can't get into the specific figures,
11 but what I would regard as extremely modest. And that to
12 me, I would imagine, costs money.

13 So I'm looking at an industry that has the
14 capacity to meet demand, is not utilizing that capacity to
15 meet demand, has basically maintained its market share, and
16 I can't get into those specific numbers obviously during the
17 period and it's what I would call a very substantial market
18 share as far as I'm concerned as I look at it.

19 I'm trying to decide how that impacts on my
20 analysis. It's not that it's not a related party issue for
21 me, it's what is the impact on the factors that I have to
22 take into account here? Is there a rapid increase? And I
23 would say to you that when I looked at the Chinese brief at
24 pages 17 to 19 they get into a significant amount of detail
25 on this issues including quantifying or attempting to

1 quantify what we're talking about here.

2 So if you could take into account the arguments
3 that they are setting forth there, I'd like to get as much,
4 following up, I too would like to get as much detail as
5 possible on that because I'm troubled by it.

6 MR. WAITE: Commissioner Koplan, I do understand
7 your question and I do understand the thrust of your
8 question which I also understood some of the other
9 Commissioners raised in their questions and we will address
10 that.

11 I do want to clarify one perhaps factual point. I
12 think relying on a comment made by Mr. Goldenberg, you just
13 stated that you understood the domestic producer buys a
14 Chinese hanger at a lower price. It doesn't pass that
15 savings on to its customers. I'm not sure that that in fact
16 is the case, and I'm not sure that there's anything in the
17 record that would support that. But we can address that
18 further where I think we should in our confidential post-
19 hearing submission.

20 COMMISSIONER KOPLAN: I appreciate that. That
21 would be helpful.

22 I would also like to know now as well as in the
23 post-hearing, when you say that these products are being
24 imported by the domestic producers to survive, define for me
25 what that means. I'm not clear on how you're going on

1 bringing that in when you can produce the product here as
2 well. And from what I'm hearing it's not a quality issue
3 and it's not a timeliness issue, it's strictly a price
4 issue.

5 What do you mean by all this product is being
6 brought in by Petitioners, domestic producers, to survive?

7 MR. WAITE: We will address that. Let me again
8 clarify that when I said survive I was referring to the
9 domestic producers who were Petitioners only.

10 I believe Mr. Magnus maybe able to respond
11 publicly to one of the points that you raised, Commissioner.

12 COMMISSIONER KOPLAN: I'd appreciate it. Thank
13 you, Mr. Magnus.

14 MR. MAGNUS: Thank you. We import Chinese caped
15 hangers because the price we have to sell them to our
16 distributor is less than our manufactured cost.

17 We do that, and we still make some to supplement
18 what we import, but the price that we have to sell them to
19 our distributor for so that he can compete with a person
20 that imports from China is a cost less than we can
21 manufacture them for.

22 COMMISSIONER KOPLAN: Thank you.

23 Could you document that for me in post-hearing?

24 MR. MAGNUS: Yes, sir. I can.

25 COMMISSIONER KOPLAN: Thank you.

1 Coming back to you again, Mr. Waite. I don't think
2 in your brief that you deal with causes other than the
3 subject imports that might be contributing to injury or the
4 threat of injury. And I would appreciate your going through
5 those factors for purposes of the post-hearing. It's been
6 touched on today, but in as much detail as you could, the
7 conditions with regard to demand, the underlying downturn in
8 the market, recessions, declines in discretionary spending.
9 We've heard about casual dress policies, shifts in consumer
10 patterns, rising material costs, increased unit costs, sales
11 of imports in the discreet market segments. There have been
12 some allegations with regard to the quality differences in
13 Chinese product.

14 Also at least it appears to me there's little
15 evidence of capital improvements even when the market was
16 relatively good. And whether a failure to modernize or
17 increase capacity utilization, how that impacts.

18 As I say, these are things that have been touched
19 on today but if you could get into some more detail on that
20 I'd also appreciate it.

21 MR. WAITE: Yes, Commissioner, we will deal with
22 that in the orderly basis that you've requested in our post-
23 hearing submission, although we would note that our pre-
24 hearing submission as well as our petition did address a
25 number of these issues, perhaps not in the format that you

1 requested. But we will do that in our post-hearing brief.

2 COMMISSIONER KOPLAN: I appreciate that very much.

3 From what I understand not all products being
4 domestically produced are subject to competition from
5 subject imports and I'd like to know how you account for the
6 declines in the unit values for those products that don't
7 compete with subject imports. You can do that post-hearing,
8 and I would refer you to a discussion that appears at pages
9 35 and 36 of the Chinese brief.

10 MR. WAITE: Yes, sir.

11 COMMISSIONER KOPLAN: I have nothing further. I
12 thank you all for your responses. And thank you, Madam
13 Chairman.

14 CHAIRMAN OKUN: Thank you, and hopefully I can
15 finish up here as well.

16 I think this has been touched on in a number of
17 the questions that I and my colleagues have asked for post-
18 hearing with regard to a number of the factors we looked at.
19 But in the brief I believe by the Chinese and maybe Laidlaw,
20 but there was a discussion about 406 and what 406 means and
21 what 406 envisions. Again, not 421.

22 But one of the things that it talked about is did
23 these statutes envision that there would be reasonable
24 quantities or a respectable market share by, in that case,
25 communist countries.

1 For post-hearing, when you're discussing some of
2 the factors that Commissioner Koplan just talked about, the
3 market share of the domestic industry, their capacity
4 utilization that we see, at least in the staff report, I'd
5 like you to address whether that is a relevant consideration
6 in terms of the statute that we are applying today, and if
7 so, how we should interpret it. That's for post-hearing.

8 MR. WAITE: We shall do that, Madam Chairman.

9 CHAIRMAN OKUN: Okay. And then also just in terms
10 of, and I think my colleagues have been clear, in looking at
11 how we treat the domestic producers' imports, that there is
12 both a volume issue, the first prong issue in it is a
13 causation issue and I think those need to be addressed. For
14 my purposes on causation I think that Title 7 precedents
15 would be relevant given it's an impact issue, so I would
16 encourage you to look beyond what we have in some of the old
17 cases.

18 Mr. Roby, I wanted to go back on one follow-up
19 with regard to the comments you had about there probably was
20 regional pricing at some time in this industry but that has
21 diminished somewhat. I wondered, and maybe this is really
22 the producers have been in the market the whole time,
23 whether you think that by having it go to nationwide pricing
24 that that resulted in prices going down nationwide or going
25 up? In other words, who did they follow? The West Coast,

1 the East Coast, the middle in terms of coming towards a
2 nationwide price? If you have any information on that.

3 MR. ROBY: I don't have any information. If you
4 ask my opinion, it's prices haven't gone up. I would say
5 the effects have not been favorable from a selling price
6 perspective.

7 CHAIRMAN OKUN: Okay.

8 Mr. Goldman or Mr. Magnus, anything on this issue?
9 Regional versus national prices?

10 MR. GOLDMAN: Yes. I feel the same effects on
11 pricing are national as well as regional. I don't see a
12 difference in the effect on pricing on Chicago as opposed to
13 Miami. When the prices, when there is pressure for the
14 price to decrease, I find the same pressure in most
15 locations that we cover.

16 CHAIRMAN OKUN: Mr. Magnus, anything else to add
17 on that?

18 MR. MAGNUS: Nothing else.

19 CHAIRMAN OKUN: Okay. I appreciate that.

20 Let me then turn I think on remedy, a number of
21 good questions have been asked that I will be interested in
22 seeing in the post-hearing as well. Just one thing I wanted
23 to throw out on that and as a legal matter, Mr. Waite, I
24 guess it goes to you, which is under the statute do you
25 believe that our remedy needs to have a liberalizing effect

1 over time?

2 MR. WAITE: The statute doesn't require that,
3 Madam Chairman.

4 CHAIRMAN OKUN: Do you think that the general
5 safeguard --

6 MR. WAITE: The general safeguard regime should
7 have some influence on this. I'd like to think about that
8 if I may.

9 CHAIRMAN OKUN: I'll look for it in post-hearing,
10 if you can address that.

11 MR. WAITE: Thank you.

12 CHAIRMAN OKUN: The other question I have, and Mr.
13 Malashevich you might be the best one to talk about that.
14 But I guess I'm curious when I listened to your description
15 of why the specific tariff would be more helpful than ad
16 valorem or a quota, I think I understand what happens with
17 the lower priced products, but I wonder if that doesn't just
18 push the -- If the incentive is to go into the higher priced
19 products which I would think would be a more attractive
20 product for the domestics because they still have that
21 market share. I wonder if you think there's any likelihood
22 of that happening, the shifting among those products.

23 MR. MALASHEVICH: I can't say the likelihood is
24 zero, but the volume which tends to be what they have been
25 after is in the lower priced products.

1 CHAIRMAN OKUN: Do you think that would shift with
2 a specific tariff versus --

3 MR. MALASHEVICH: Probably somewhat. There would
4 be some tendency to do that. I don't think it's possible to
5 forecast the degree.

6 CHAIRMAN OKUN: Okay.

7 I believe that my colleagues have covered the
8 other questions. I very much appreciate all the testimony
9 you've given us this morning and now this afternoon.

10 I'll turn to Vice Chairman Hillman.

11 VICE CHAIRMAN HILLMAN: I hope a quick follow-up.
12 Just to make sure I understand the testimony on this whole
13 regional issue. Mr. Roby, you're the one that's selling on
14 the West Coast. Are prices on the West Coast lower today
15 than they are elsewhere in the country?

16 MR. ROBY: I would have to look at that, but I can
17 do that.

18 VICE CHAIRMAN HILLMAN: If you could, that would
19 be helpful.

20 Secondly, I just want to make sure I understood, I
21 heard all the testimony about powder-coated product and what
22 it does or does not do in terms of competition. But just so
23 I understand it as a factual matter, why doesn't anyone in
24 the domestic industry powder coat? Is there any
25 environmental, technology, why not?

1 MR. GOLDMAN: Joel Goldman.

2 We've found through a certain amount of
3 investigation that the cost of just the raw material to
4 powder coat is over 50 percent more -- just for the raw
5 material. We have also found that the production process in
6 our case would be more expensive to produce mass volume of
7 this product.

8 We feel, and I mentioned it before, that there is
9 absolutely no value added to the product to expand this
10 extra dollar.

11 VICE CHAIRMAN HILLMAN: That's the answer I
12 needed. I just hadn't heard that. I appreciate that.

13 The last couple of follow-ups on a couple of
14 comments that you made, Mr. Roby, I think in the first
15 exchange we had. You mentioned that prices hold for five
16 minutes or something to that effect, but I'm trying to
17 translate that into an understanding of how quickly people
18 actually switch suppliers. We've heard a number of your
19 customers here say you've had these 20 and 30 and 40 year
20 relationships and Mr. Mindich's testimony about how
21 difficult it is to make a decision to move away from these
22 long term suppliers.

23 I'm trying to square that with this notion that a
24 price holds for five minutes. How readily do people switch
25 their suppliers?

1 MR. ROBY: I don't know that people readily switch
2 suppliers in the whole. I would say that depending upon the
3 pricing that you're at today and you have to understand, if
4 you do not match a price and one of our customers orders a
5 container of Chinese hangers, that is not one day's worth of
6 product for them. So it winds up coming down, it tends to
7 be a bit of a cycle where you miss the opportunity for that
8 order. When the customer comes back around to order again
9 they typically will give you another opportunity and you can
10 say I'll match it or I won't. So it's a cycle. And
11 depending upon how big the --

12 VICE CHAIRMAN HILLMAN: So literally you miss an
13 order and then you make a decision when the next time a
14 request comes in --

15 MR. ROBY: But an order for us is significantly
16 smaller than an order for Chinese hangers because we will
17 deliver a much smaller quantity.

18 So when you miss out it's not equivalent to only
19 one order for us. It could be equivalent to many many orders
20 for us over the period of time that those hangers would
21 last.

22 VICE CHAIRMAN HILLMAN: And this would typically
23 happen literally on a daily basis.

24 MR. ROBY: Absolutely.

25 VICE CHAIRMAN HILLMAN: On the distribution end,

1 again, how readily do your customers switch suppliers?
2 Daily? Is it order by order? Is it the kind of thing where
3 you've had a long term, your salesmen are out there calling
4 on these people. They have those relationships. How often
5 do your customers typically switch who they buy their
6 supplies from?

7 MR. MINDICH: David Mindich. It's not often that
8 they switch. It's often that they put pricing pressure on
9 us to match the price. So instead of saying, it's more a
10 threat. If you don't match this price I'm going to buy from
11 the other guy. Then I'll go back to my people, well if you
12 don't match the price, I'm going to buy from the other guy.
13 That's what's happened. I've lost customers and they've
14 lost some business.

15 Occasionally there are people out there that will
16 go to four or five different distributors and say hey what's
17 your price on every single item, and whoever has the best
18 price they'll buy from.

19 MR. GOLDENBERG: If I may add to that, I think
20 that particularly in the last year there has been, I think
21 that some of my customer base is just a little bit
22 frustrated with having to come back and ask for a better
23 price every time it comes for negotiation. And I think that
24 we've lost a lot of customers that were buying hangers from
25 us because they don't have the time or the patience to sit

1 and negotiate this open market every time somebody comes in
2 to place an order which is a week or every ten days.

3 So a lot of them have in fact left for that
4 particular product.

5 MR. HERICKS: Jim Hericks, Dallas Tailor.

6 In 2001 we were purchasing a considerable amount
7 of Chinese hangers, and one of the major manufacturers here
8 came to us and gave us some price concessions in the fall of
9 2001. We did switch some of the Chinese onto the U.S.
10 manufacturer. But what we saw is as time went on, we could
11 again buy the Chinese hangers cheaper. So we cut a new deal
12 with the U.S. manufacturer and then all at once here come --
13 And we've reached a point again where I think we're going to
14 have to go back to start purchasing Chinese hangers again.

15 The relationship between the distributor and the
16 customer, all loyalty gets you today between that
17 relationship is a second chance. That customer, if he's
18 loyal to you as a distributor will say I can buy this at X
19 dollars. Can you match it? If you match it, you get the
20 sale. If you don't, it goes to the other guy.

21 VICE CHAIRMAN HILLMAN: One other question I had.
22 Obviously in our record the imports have been largely from
23 China, but we are beginning to see imports in the record
24 from Mexico.

25 I wondered if anyone can comment, I don't know,

1 Mr. Magnus, whether you had mentioned the relationship
2 between M&B and a Mexican producer on what's going on with
3 the Mexican imports. What products are they? Obviously we
4 have data that would show us the average unit values of
5 those. What impact do you think the Mexican imports of
6 hangers have had on the market?

7 MR. MAGNUS: I'd like to address that in the post-
8 hearing brief.

9 VICE CHAIRMAN HILLMAN: If you can, look at both
10 what is the product mix coming out of Mexico to the extent
11 that you know it and what impact you think the Mexican
12 product has had on prices.

13 MR. MAGNUS: I'll be happy to do that.

14 MR. MALASHEVICH: Just one other point on that,
15 Commissioner Hillman. We happen to have discussed it
16 yesterday.

17 Apart from Mr. Magnus' facility you shouldn't have
18 the impression that there is some burgeoning hanger industry
19 across the border in Mexico. In fact according to the
20 gentlemen sitting around the table here, most of the
21 industry in Mexico has shut down in recent years. So Mr.
22 Magnus' facility is something of an exception. There is no
23 gathering storm of exporters from Mexico.

24 VICE CHAIRMAN HILLMAN: The last question I had,
25 Mr. Roby you referred to CHC's consolidation steps that have

1 removed its capacity of about a billion units, I think was
2 your testimony.

3 I'm just curious, and maybe Mr. Waite this is to
4 some extent a legal question, whether this consolidation is
5 a sign of injury or whether it's an effort to bring the
6 industry to a more efficient size?

7 MR. WAITE: I actually think it's both. To bring
8 the industry to a more efficient size to be more competitive
9 in dealing with the influx of imports from China.

10 Mr. Roby can provide to you some very detailed
11 explanation of the decision to purchase Midwest and the
12 factors that went into that and also what was done with both
13 CHC's and Midwest facilities after that acquisition which I
14 think would be directly responsive to your questions, Madam
15 Vice Chairman.

16 VICE CHAIRMAN HILLMAN: And if that's easier done
17 in a post-hearing, that's fine.

18 MR. WAITE: I think it's all quite sensitive.

19 VICE CHAIRMAN HILLMAN: Okay. Fair enough.

20 I think with that I have no further questions.
21 Madam Chairman, I do thank these witnesses very much. Your
22 testimony's been extremely helpful. Thank you.

23 CHAIRMAN OKUN: Commissioner Miller?

24 COMMISSIONER MILLER: Nothing further.

25 CHAIRMAN OKUN: No further questions from here.

1 Let me turn to staff to see if staff has questions for this
2 panel?

3 MR. McCLURE: Jim McClure of the Office of
4 Investigations. Mr. Gearhart has a question for the parties,
5 and after he speaks I'd just like to offer one comment.

6 MR. GEARHART: Bill Gearhart from the General
7 Counsel's office. Just one quick, question, and really for
8 the briefs. That's in terms of the like product and the
9 domestic industry, there's discussion in the brief but if
10 you could just succinctly in your post-hearing brief
11 indicate what the like product is and what the domestic
12 industry is producing the like product. I think that would
13 be helpful.

14 Sort of following the analysis, or in terms of the
15 analysis the Commission used, for example, in the Pedestal
16 Actuator case and some of the recent 201s.

17 MR. WAITE: We will address that, Mr. Gearhart.

18 MR. McCLURE: Again, Jim McClure, the Office of
19 Investigations.

20 On a personal note, I'd like to thank the
21 Commissioners for saying what we all feel about Lynn
22 Featherstone. In particular it's nice to hear it in a
23 public forum. I've known Lynn since October of '77 and I've
24 been present on the three occasions when Lynn, and we all
25 know how much he hates this, to be praised in public, in '82

1 in the Commissioner's Award, last year in the President's
2 Award, and today. I'd like to thank you on behalf of all of
3 us in Investigations for how we feel, for stating how much
4 we admire him, how much we care for him, and just pointing
5 out he is the essence of public service.

6 Finally, I'd like to thank you for pointing out
7 the fact that on behalf of the Office of Investigations I'm
8 going to go out and buy a gross of kleenex boxes because
9 we're all going to need it to get through the next 36 hours.

10 CHAIRMAN OKUN: Thank you very much, Mr. McClure
11 for those comments, and I know they do reflect that office
12 and the Commission as well. So thank you again.

13 Do those who oppose relief have any questions for
14 this panel?

15 MR. LOEB: Not from us on behalf of the Chinese
16 Respondents. This is Hamilton Loeb for the record.

17 MR. FAZZONE: This is Patrick Fazzone. On behalf
18 of Laidlaw Corporation, for the record we don't have any
19 questions at this present time.

20 CHAIRMAN OKUN: Very well. This looks like a good
21 time to take a lunch break. We will reconvene at 2:00
22 o'clock.

23 I remind all parties that this room is not secure
24 so if you have anything business confidential please take it
25 with you, and we will reconvene at 2:00 o'clock.

1 //

2 (Whereupon, at 1:02 p.m. the hearing was recessed,
3 to reconvene at 2:00 p.m. this same day, Thursday, January
4 9, 2003.)

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A F T E R N O O N S E S S I O N

(2:02 p.m.)

1
2
3 CHAIRMAN OKUN: Good afternoon, this hearing of
4 the U.S. International Trade Commission will now come back
5 to order. Madam Secretary, I see that our second panel of
6 witnesses are seated. Have all the witnesses been sworn?

7 MS. ABBOTT: All witnesses have been sworn, Madam
8 Chairman.

9 CHAIRMAN OKUN: Very well then, you may proceed
10 Mr. Fazzone and Mr. Loeb.

11 MR. LOEB: Madam Chairman, Hamilton Loeb for the
12 Chinese Respondents.

13 I'm just going to give you a one-minute road map
14 to what we intend to do.

15 The first thing you'll hear is the testimony from
16 the Laidlaw representatives, both the executives and Dr.
17 Shilling, so they are in the front row for initial purposes
18 on this panel.

19 After you hear from Mr. Fazzone and then Mr.
20 Livermore, Mr. McWilliams and Dr. Shilling, we'll then go to
21 the economic testimony of John Reilly. Following Mr. Reilly
22 Linda Lo from Wells Manufacturing will testify. and then
23 following that we expect to have a little bit more time
24 either to begin on questions or to follow up on points that
25 were raised this morning.

1 So our plan with the indulgence of the Chair is
2 to, after the Laidlaw witnesses have finished their direct
3 presentations, have them drop back, have our people move up
4 to the front, and then we'll just stay in that formation
5 through the question process.

6 Is that agreeable?

7 CHAIRMAN OKUN: It's usually easier for us if you
8 stay in one place just because we will get a witness list
9 and you will be in whatever order you are and we can see
10 that. I think it's fine if your witnesses feel strongly
11 they want to be up in the front, I guess we can do that, but
12 it just seems to work smoother if you stay where you are.

13 MR. LOEB: If your preference is that, we'll stay
14 here, we'll let Laidlaw stay in front.

15 CHAIRMAN OKUN: Okay, if that's not a problem
16 between counsel.

17 Let's proceed then.

18 MR. FAZZONE: Thank you very much again. Patrick
19 Fazzone on behalf of Laidlaw Corporation.

20 I'd like to now turn over to our witnesses for
21 Laidlaw Corporation and they consist of Curt Livermore who
22 is President and CEO who has long experience in this
23 industry; then Brent McWilliams who is a Vice President for
24 Marketing who has nearly 20 years of experience in this
25 industry including in various different parts of the

1 country; and then to Mr. Gary Shilling.

2 Mr. Shilling has not testified before this body to
3 my knowledge. Nevertheless, I think it would just be worth
4 taking a second just to give you a little bit of background.
5 He is a prominent economic forecaster and has been for many
6 years. He is going to be testifying as to the impact of the
7 economy on this particular industry. He was recently named
8 in January 2003 by the Wall Street Journal as one of the
9 most accurate economic forecasters in the United States and
10 has been advisor to several U.S. Presidents as well as a
11 senior official at Merrill Lynch. He has been a consultant
12 to Laidlaw Corporation for approximately 20 years so has a
13 pretty longstanding understanding of this industry,
14 particularly from Laidlaw's perspective.

15 I'd like to turn over now to Mr. Livermore. Curt?

16 MR. LIVERMORE: Thanks, Patrick.

17 I have a bad cold and my voice is going to fade in
18 and out, but I'll try to speak as loud as I can.

19 Madam Chairman, Madam Vice Chairman, and other
20 Commissioners, good afternoon. My name is Curt Livermore
21 and I'm President and Chief Executive Officer of Laidlaw
22 Corporation and have been with the company almost 12 years.

23 Laidlaw is the second largest hanger producer in
24 the United States. We oppose this petition for two reasons.
25 One, we do not believe imports are a significant part of our

1 problems today. And two, granting relief from Chinese
2 imports will serve no useful purpose and would not be
3 beneficial to the industry in our opinion.

4 Laidlaw has been around this business for a long
5 time. In fact next week we'll celebrate our 86th year as a
6 company called Laidlaw Corporation, the business starting in
7 Peoria, Illinois in 1917. John Mueller, who is here with us
8 today, is Laidlaw's Chairman and he's in his 49th active
9 year as a member of the Laidlaw management team.

10 Since 1932 our core business has been wire garment
11 hangers. Over the year we also introduced other products to
12 the dry cleaning and laundry industry with the development
13 of a full line of paper packaging products as well as
14 specialty chemicals used in the industry from detergents to
15 boiler guard to spotting board chemicals used in dry
16 cleaning plants. In fact we are the only manufacturer of
17 hangers that has this diversified line of products with the
18 dry cleaning and laundry industry customers.

19 We believe that gives us a distinct advantage over
20 other hanger manufacturers particularly when all these
21 products can be delivered on the same truck from one of our
22 four strategically located plants in the United States.
23 With these four plants located in Arizona, Wisconsin,
24 Southern Illinois and Delaware, Laidlaw is best positioned
25 to service the distinctly different geographic regions that

1 make up the U.S. market.

2 These plant locations also allow us to service our
3 uniform rental customers throughout the United States which
4 is an integral and growing part of our overall hanger
5 business.

6 To maintain our competitive edge we began a major
7 ten year capital spending program in 1991 to improve both
8 our efficiencies and our production capabilities. Millions
9 of dollars since then have been spent on faster new
10 equipment in all facets of our operations in the United
11 States. We're committed to being the low cost U.S. producer
12 of wire garment hangers for the benefit of our U.S.
13 distributors and customers, and our employee owners.

14 This capital spending program culminated in our
15 moving into a new 180,000 square foot Greenfield facility,
16 Illinois, in 2002 as part of an overall consolidation plan.

17 One might ask why we spent the money in a down
18 market. Well a lot of it was spent during good times. We
19 needed to complete our cost improvement and consolidation
20 plans in 2001 and 2002 despite today's poor economy in order
21 to be well positioned for the next upturn in the industry
22 which we anticipate will occur.

23 Let me now talk a little bit about what Laidlaw
24 thinks has gone on in our industry. Our industry really is a
25 cyclical business. We're presently in a downturn where the

1 demand for our products is a result of the general economic
2 decline that we believe began in late 2000, early 2001.

3 The industry is also susceptible to consumption
4 preferences in dress. For example the double knit leisure
5 suits of the '70s negatively affected demand for dry
6 cleaning services. We had a little uptick in dry cleaning
7 when more and more women entered the professional workforce
8 10 to 15 years ago. Now along with the poor economy we do
9 believe that the overall industry has been negatively
10 affected by more and more casual dress at the office where
11 coat and tie used to be the order of the day.

12 You would think that the downturn in the economy
13 would lead to lower costs for many raw materials. In fact
14 the cost of our major raw material for hangers, steel rod,
15 has gone up dramatically from early 2001 to today and into
16 the first quarter of 2003. This dramatic increase in rod
17 cost pushed our unit costs up significantly and at Laidlaw
18 is a primary cause for our reduced profitability in the year
19 2002.

20 A final point of what we think goes on in this
21 industry, quite candidly over the last two years we in this
22 industry have made mistakes in marketing our hangers.
23 You've heard the old adage, we've met the enemy and they are
24 us? That's very true in this industry.

25 Some U.S. producers have been overly aggressive

1 and even irrational in their pricing decisions. The net
2 result of all of these factors is that demand has been going
3 down steadily the past two years due to the poor economy,
4 and our financial performance has been hurt by that
5 primarily, particularly when you add to that that our cost
6 of rod has gone up substantially.

7 Because there still is an over-supply of hangers
8 in the United States and due to the relatively slow rate of
9 growth even in good times in the dry cleaning and industrial
10 laundry business, Laidlaw developed a global strategy at the
11 urging of our Board of Directors to grow our core business
12 outside of the United States. The exclusive supply
13 agreement negotiated with Shanghai Wells Hanger company in
14 2001 was the first step towards that goal. It put us on the
15 ground floor to supply dry cleaning products to China and
16 other Pacific Rim countries as their standards of living
17 improve and the demand for dry cleaning services increases.

18 The second result, of course, of our "China
19 connection" was improved margins on certain wire garment
20 hangers produced in China and sold in the United States.
21 This was all part of our strategy to be the low cost
22 producer globally of hangers and other dry cleaning
23 products.

24 What about the role of imports? We believe that
25 they are insignificant, particularly when you exclude the

1 imports brought in by U.S. producers. We also believe that
2 the long term prospects of imports continuing to grow are
3 limited, primarily as a result of the additional
4 transportation and handling costs that would be incurred to
5 move any containers from their point of entry into mid
6 America. Imports will continue to be limited to the coastal
7 areas where they are presently found.

8 In addition, the short lead times required in the
9 uniform rental segment of the industry we think will prevent
10 importers from gaining any significant part of that business
11 without investing in local warehousing.

12 We do not dispute the fact that prices have gone
13 down in some areas of the country because of lower priced
14 Chinese hangers. However, we believe strongly that the
15 market itself must work out these problems as it has in the
16 past, and it will when the economy picks up and unemployment
17 goes down.

18 So what about relief? There should not be any
19 relief as imports of wire garment hangers by companies other
20 than the U.S. producers is insignificant and the prospects
21 for growing in the future are limited in our opinion.

22 Thank you.

23 I'd like to turn it over now to Brent McWilliams.

24 MR. McWILLIAMS: Good afternoon. My name is Brent
25 McWilliams and I am Vice President of Sales and Marketing

Heritage Reporting Corporation
(202) 628-4888

1 for Laidlaw Corporation. I have been with Laidlaw since
2 1983 and prior to that worked several years for the
3 International Fabric Care Institute which is the trade
4 association in our industry for dry cleaners and launderers
5 worldwide. I feel that I have a very good grasp on the
6 imports issue, and actually lived and worked for seven years
7 in the West Coast market where the majority of the imports
8 are sold today.

9 We have 19 sales people at Laidlaw, six of which
10 report directly to me and I believe that we have as much if
11 not more knowledge of our industry than any company. Nearly
12 each and every day our sales managers and I are on the
13 telephone discussing marketing problems and opportunities.
14 We are in the unique position of selling nearly every
15 distributor in the United States. Not all of these
16 distributors buy our hangers, but nearly all buy our
17 chemicals or packaging products. We have an open and
18 ongoing dialogue with them.

19 There are several important things that I would
20 like the Commission to understand about our industry.

21 Number one, the hanger business is a regional
22 business which we service from plants strategically located
23 throughout the country. Market prices do vary by region.
24 The Western region used to be the highest priced region in
25 the country. About 12 years ago things changed in

1 California and today it is the lowest priced region. This
2 happened because of a domestic manufacturer and his pricing
3 practices.

4 For the past decade we at Laidlaw have competed
5 with this direct selling local manufacturer to the best of
6 our ability. He has gotten a foothold on the West Coast,
7 but we have actually seen our sales grow even against the
8 Chinese competition of the past few years.

9 Each region has its own particular characteristics
10 and problems and this is why we look at regional markets and
11 regional pricing rather than treating the nation as a whole
12 the same.

13 Number two, demand is off. In the face of a
14 declining demand in our industry today domestic
15 manufacturers have been pricing very aggressively in an
16 attempt to gain sales. While we see concerns with imports
17 in certain specific areas, we view the problems in the
18 industry as being related to unemployment, casual wear
19 growth, home offices where people do not dress up, home
20 washing where people take care of garments at home,
21 recycling of hangers by cost-conscious dry cleaners, as well
22 as dry cleaners and distributors that have gone bankrupt.

23 Just in the past few months, as you have already
24 heard, three major distributors have closed their doors. In
25 most cases when a distributor shuts down he leaves his

1 hanger provider out in the cold. Not only does the
2 manufacturer or importer lose money owed to them from that
3 distributor, they also will likely lose market share within
4 that market. This is exactly what has recently happened in
5 Michigan and Ohio where one of our domestic competitors lost
6 a distributor. This has resulted in Laidlaw gaining market
7 share. A price war has now begun and prices have dropped --
8 having absolutely nothing to do with imports.

9 Number three, we feel that our market share is
10 growing. Most distributors in the four regions throughout
11 the country do not want to purchase containers of hangers.
12 Most imports, if not all, are delivered that way.
13 Distributors like having the flexibility of buying less than
14 truckloads of hangers from Laidlaw combined with our
15 chemicals and paper packaging items.

16 By dealing with Laidlaw or any of the domestic
17 manufacturers, the distributor does not have to expend the
18 time and effort required to break down a container and does
19 not have to tie up warehouse space on hangers that are
20 likely to sit for many weeks. This gives us all a marketing
21 edge over the imports.

22 As far as our company goes, distributors also like
23 having a Laidlaw representative available to visit with
24 their dry cleaner or laundry customer as an extension of
25 their own distributorship and its sales force.

1 Number four, we do not believe that the way market
2 are set up regionally, Chinese imports are the problem.
3 They are only seen in certain cities and our own experience
4 show that 70 percent of our imports stay on the West Coast.
5 We are the only domestic manufacturer that has a West Coast
6 plant and because of this one might think we should be one
7 of the major Petitioners. In fact, as you know, we are not.

8 We also believe that although the import numbers
9 have increased somewhat, a good portion of the increase is
10 brought in by the domestic manufacturers.

11 To put the level of imports into perspective for
12 the Commission, our market intelligence tells us that
13 imports for the first nine months of 2002 were around 300
14 million hangers. This number includes the producer's own
15 imports. We at Laidlaw feel that today the non-producer
16 imports are not going to increase significantly into the
17 future and will not grow outside of the markets that they
18 are now sold into.

19 I would now like to introduce Dr. Gary Shilling,
20 Laidlaw's long-time economic consultant.

21 MR. SHILLING: Thank you very much. I'm Gary
22 Shilling. I'm President of A. Gary Shilling and Company, an
23 economic consulting firm established in 1978.

24 Since this is the first opportunity I've had to
25 testify before this Commission I'd like to elaborate a

1 little bit on the introductory comments that Mr. Fazzone
2 made as to who I am.

3 I'm a Phi Beta Kappa graduate from Amhurst College
4 in Physics. I have an MA and PhD from Stanford University.
5 I've spent most of my career as an economic forecaster and
6 consultant. I was Merrill Lynch's first Chief Economist, a
7 number of years ago, I must admit. I'm a regular columnist
8 for Forbes Magazine and have been since 1983. I've been an
9 informal advisor to the Reagan and Bush Administrations,
10 both of them. I've authored five books. The latest two are
11 both dealing with and forecasting deflation which is a topic
12 I think we are dealing with here today in many ways.

13 I've been twice ranked as Wall Street's top
14 economist by the annual poll made by the Institutional
15 Investor Magazine, and as Patrick mentioned, in the January
16 2nd 2003 edition of the Wall Street Journal there was a
17 review of the forecast of the poll made six months earlier.
18 It's a regular six month poll. The Journal said in June,
19 "Only one forecaster, Gary Shilling, expected the Fed to cut
20 short term interest rates in the second half as it did in
21 November. Only one forecaster, again Mr. Shilling, expected
22 the Dow Jones Industrial Average to finish the year below
23 9,000. Twenty-seven of the 55 polled expected it to finish
24 the year above 10,000." It did finish the year at 8,342.

25 I must say I guess I love stings both

1 professionally and as a hobbyist because I'm also a avid
2 beekeeper.

3 I've been an economic consultant to Laidlaw since
4 1980, my firm has, and we have spent that time analyzing and
5 forecasting U.S. sales for Laidlaw in total and by the four
6 regions served by their four plants. And I must say they
7 are all quite different.

8 I think since Laidlaw is a major producer in this
9 industry, it's given us a good grasp of the industry and the
10 factors affecting it.

11 There's no argument that the volume and prices
12 received for wire hangers have been weak since early 2001
13 and there isn't any argument that imports from China have
14 increased since late 2000. But to conclude that imports
15 from China are the cause of the domestic industry's plight
16 requires a huge leap of faith. You can't prove causality
17 with statistics.

18 I will guarantee you absolutely positively that
19 every time there's an eclipse of the sun if you step outside
20 and beat a drum it will go away.

21 What I think our analysis has shown is really four
22 significant conclusions that I'd like to explore today.

23 The first is the current distress of the U.S.
24 hanger industry is accounted for by adverse long term
25 trends, by the current recessionary conditions, and by

1 economy-wide growing deflationary pressures.

2 Secondly, Chinese imports have only a tiny effect
3 on selling prices.

4 Third, U.S. producers are not using imports to
5 undercut competitors and gain market share. In fact it is
6 non-importing producers that are doing so.

7 And fourth, Chinese imports are unlikely to grow
8 significantly and penetrate beyond coastal areas.

9 Let's look first at the overall situation.
10 There's ample evidence that the industry's troubles in the
11 last several years result importantly from adverse long term
12 trends combined with negative cyclical factors.

13 As everyone is aware by now, coat hangers are
14 purchased largely by launderers and dry cleaners and by
15 uniform rental companies, so the economic forces that drive
16 those businesses drive the demand for wire hangers. Laundry
17 and dry cleaning expenditures were adversely affected
18 actually going back to the late 1960s by the use of easy
19 care fabrics that required less professional care.

20 This long term trend was somewhat alleviated,
21 interestingly enough, in the 1980s and 1990s by the rush of
22 women into the labor force. Of course that meant they
23 needed more formal attire and had less time at home to take
24 care of those garments. But that factor has pretty well
25 been extinguished. The labor participation rates for women

1 in the working age categories have pretty well leveled off.

2 Casual dress, as we've heard before, has become a
3 factor particularly in the decade of the '90s, and
4 Commissioner Koplan reminded us that that has affected even
5 the ITC.

6 In any event, this factor is one, there may be
7 some evidence that casual attire is being reversed. Some
8 firms have gone so far as to equate sloppy business dress in
9 the 1990s with sloppy morality. But the trend reversal is
10 yet to be felt by apparel manufacturers, much less
11 launderers and dry cleaners.

12 In any event on balance if we look at the share of
13 after tax income, disposable personal income economists call
14 it, the share of that that has gone to launderers and dry
15 cleaners has been an amazing decline. Despite increasing
16 prosperity in this country over recent decades, in the late
17 '60s that share was .65 percent. Last year it was .18
18 percent. It was only 28 percent as big a share of after tax
19 income was going to laundry and dry cleaning as in the late
20 '60s.

21 One of the reasons that the likely reversal in
22 casual business dress is likely to be felt in sales of more
23 formal attire by both women and men is probably the
24 recessionary climate of the last several years. Those
25 without jobs don't need and can't afford the business

1 clothes and the related laundry and dry cleaning services,
2 and from that the demand for hangers.

3 The recessionary patterns are real. We've seen
4 this throughout the decades we've worked with Laidlaw.
5 There's absolutely no question that we see clear patterns of
6 that not only in laundry and dry cleaning expenditure, but
7 we also see it reflected in Laidlaw's sales as we've
8 analyzed them and forecasted them over the years.

9 It's also I think a factor in uniform rentals.
10 After all if the economy is lousy, there are fewer people
11 being hired, fewer uniforms being used. It's a pretty clear
12 situation.

13 As we look at this current economic situation,
14 this is not a normal recession. The stock market that many
15 people thought in the late '90s was their route to riches
16 and early retirement has collapsed. People are reappraising
17 their situation. We're seeing for the first time in 20
18 years incomes growing faster than spending. We were on a 20
19 year borrowing and spending spree which now has been
20 reversed recently. And of course we do have what looks to
21 us like the onset of deflation.

22 On top of that of course we have the sobering
23 aftermath of 9/11 and the Enron-Andersen revelations, all of
24 which are discouraging consumers and creating a very very
25 different atmosphere.

1 So what it seems to us is that we have ample
2 evidence that these long term trends and cyclical factors
3 are affecting the industry. It's also true on the price
4 front, as I say, the deflationary factors are coming in and
5 we have done some statistical regression work that indicates
6 that that is shown in our submission which is part of the
7 pre-hearing brief.

8 Basically what it does is to look at the
9 determinants of domestic prices and we find that they are
10 statistically related to some very key and logical factors.
11 One is the hanger sales by domestic producers. You would
12 expect that to have a positive relationship. It does. The
13 second one is this ratio of laundry and dry cleaning
14 expenditures to after tax income. And a third one is the
15 price of wire rod, an important input.

16 This relationship explains 91 percent of the
17 volatility in hanger prices over this period 1997 through
18 the third quarter of last year, and all these variables are
19 significant at the two percent level.

20 In other words, domestic hanger sales and this
21 ratio of laundry and dry cleaning expenditures to disposable
22 income and wire rod prices do an excellent job of explaining
23 these prices.

24 Now what we have done though is then to say okay,
25 if Chinese imports are really this important and the price

1 differential, the lower price is important, it should have
2 had an affect on domestic prices. Yet when we introduce
3 that variable into the model, it makes virtually no
4 difference. It's not a terribly significant factor and the
5 results are rather interesting. It says that if yogi had a
6 one dollar price decline in Chinese import prices it would
7 reduce domestic prices by two cents. A rather remarkable
8 finding.

9 You say why aren't Chinese imports having a
10 significant effect on domestic prices? I think the answer
11 is because they simply have had limited importation, limited
12 effect, limited market share, and a lot of that of course is
13 going to domestic producers who our evidence suggests are
14 not undercutting prices, they're not using these lower price
15 imports to buy market share. They're simply using them to
16 try to maintain and restore profit margins. In fact our
17 analysis, and it is in our report which you have, suggests
18 that it is domestic producers who are really trying to buy
19 market share with lower prices.

20 So what this really says is that we really don't
21 have a case to be made for Chinese imports wrecking the
22 market. But how about in the future? After all, if they're
23 distinctly cheaper, doesn't that mean in time that they will
24 have effect?

25 Here I think you need to look at what is the

1 product here? What are we really looking at? If you say
2 that this is really a bent piece of wire, then you say one
3 size fits all. You've seen one, you've seen them all. But
4 there's a vast difference between these wire hangers in a
5 trans-oceanic container in the port of Long Beach and
6 hangers on a pallet, shrink wrapped, delivered to a
7 distributor's receiving dock. These are not, as Petitioners
8 claim, really a commodity. It's a physical product combined
9 with many services, transportation and distribution services
10 that ultimately get it to its destination.

11 With that in mind, the Chinese imports will
12 probably continue to have limited penetration except in
13 coastal areas because repackaging and transportation quickly
14 eats up price advantages of these lower cost imports. Fewer
15 distributors and other customers have the facilities to
16 handle containers. Most lack storage facilities and the
17 cash to buy full container loads at a time.

18 It's for this reason that I think that the overall
19 substitution elasticity of Chinese for domestically produced
20 hangers is likely to be low, be well below one. The staff
21 report suggested it could be five to ten. In other words,
22 you have a one percent decrease in price you get a five or
23 ten percent substitution of Chinese for domestic hangers.

24 I don't think that's the case because you're not
25 really talking about apples and oranges. Somebody says I'll

1 take a cheaper hanger, but he's not saying I'll take that
2 cheaper hanger in Long Beach and then it's my responsibility
3 to get it to my distributing facilities in Peoria.

4 Let me just say in summary, I think you can
5 explain the problems of this industry by long term negative
6 trends, by an adverse economic situation, by the onset of
7 deflation. We don't find that Chinese imports have any
8 really decided effect on prices. And we don't see any
9 reason why they would be able to increase the penetration
10 decisively in the future.

11 Thank you.

12 MR. LOEB: Madam Chairman, we'll now begin with
13 our witnesses. We'll start with John Reilly of Nathan
14 Associates.

15 MR. REILLY: Thank you.

16 Good afternoon Madam Chairman and Madam Vice
17 Chairman and members of the Commission. For the record I'm
18 John Reilly of Nathan Associates appearing on behalf of the
19 Respondent Chinese producers.

20 Today I'll present a number of economic
21 conclusions that bear on the issues of injury and causation.

22 First, 1999 is an appropriate base period for
23 economic analysis. I should mention that my 1999 is
24 equivalent to the Commission's 1999/2000 year.

25 Second, properly evaluated the data do not

1 indicate that imports have increased rapidly.

2 Third, U.S. producers' aggregate average prices
3 remained stable from 1999 through 2001. This is a somewhat
4 surprising finding in view of what was said this morning.

5 Fourth, U.S. industry cost increases eroded
6 operating profits in 2000 compared with 1999 and caused an
7 aggregate operating loss in 2001.

8 Fifth, decline in demand, not imports, caused the
9 U.S. producers' average price to fall in 2002, resulting in
10 an increased operating loss.

11 Sixth, the small subject imports here, the
12 significant role played by captive imports and the limited
13 competition between the subject imports and the full line of
14 steel wire hangers produced by the U.S. industry belie any
15 notion that the subject imports have caused injury.

16 Seventh, elastic domestic hanger supply as
17 reflected in a COMPAS simulation confirms the absence of any
18 significant import price effect on the domestic product.

19 Finally, competitive and logistical limits on the
20 marketability of Chinese hangers in the United States, along
21 with high Chinese capacity utilization and expected rapid
22 domestic regional Asian demand growth invalidate any notion
23 of a threat of material injury.

24 The data in the public staff report show that U.S.
25 producers sales volumes and operating income were stable

1 throughout the 1997-'99 period. Financial performance began
2 to deteriorate in 2000 and the negative trend has continued
3 to the present.

4 1999 is therefore an appropriate benchmark period
5 for investigating the reasons for the subsequent performance
6 decline.

7 This chart depicts U.S. producers total hanger
8 sales and imports from China as reported in the public staff
9 report. I note that the import figures do somewhat
10 underreport the volume of imports and importers' U.S.
11 shipments, but not to the highly exaggerated degree claimed
12 by the Petitioners.

13 The calculated aggregate 2002 import volume based
14 market share from this chart is 10.1 percent. As a matter
15 of interest the calculated aggregate import market share on
16 a value basis is 8.1 percent.

17 I believe that these market share figures will not
18 be far out of line with the final figures for U.S. producers
19 and importer shipments once all the data have been collected
20 and massaged.

21 There is no controversy, after all, over the
22 volume or value of U.S. producer sale which make up the
23 overwhelming majority of the total.

24 In 1999 the volume based import market share was
25 2.9 percent. Thus the three year cumulative increase has

1 been 7.12 percentage points, up to 10.1 percent.

2 Growth of this magnitude relative to the market
3 hardly qualifies as rapid or surging import growth.

4 Remember also that U.S. producer captive imports, which are
5 not by any means trivial, have helped to fuel the import
6 growth especially in the most recent periods.

7 Accordingly the volume and market share of the
8 non-captive imports would be significantly less than
9 portrayed on this chart.

10 I would urge that the Commission separately
11 evaluate the captive and non-captive imports in its
12 consideration of import growth and its relationship to
13 injury.

14 Next I'll address domestic producers' financial
15 performance deterioration. Although the U.S. producers'
16 profitability began to deteriorate in 2000, their average
17 prices remained quite stable from 1999 through 2001. In
18 fact the U.S. producers' average selling prices in 2000 and
19 2001 were slightly higher than in 1999.

20 It is important to note that these price movements
21 do not appear to reflect product mix changes. As noted in
22 the public staff report on page Roman I-29, four of the five
23 responding producers reported no significant product mix
24 variation.

25 The producers' average price did decline by 4.6

1 percent during 2002 and this decline did affect financial
2 performance.

3 Cost increases bedeviled the U.S. producers in
4 2000 and 2001 while price deterioration in 2002 added to the
5 producers' problems. U.S. producers' operating profit
6 declined by \$1.6 million from 1999 to 2000, caused almost
7 entirely by cost increases of \$2.4 million that more than
8 offset the favorable price variance of about a million
9 dollars.

10 Comparing 2001 with 1999 an unfavorable cost
11 variance of \$7.2 million was principally responsible for an
12 operating profit decline of \$7.6 million. A minor
13 unfavorable volume variance of \$486,000 partially offset by
14 a small favorable price variance also contributed to the
15 operating profit decline.

16 In 2002 the situation changed significantly. An
17 unfavorable price variance of \$6.2 million compared with
18 1999 caused 68 percent of a \$9.1 million operating profit
19 decline, while an unfavorable cost variance of \$2.2 million
20 and an unfavorable volume variance of \$760,000 accounted for
21 the remainder of the decline.

22 The domestic hanger industry has long had
23 significant unused capacity and features low fixed cost and
24 a variable cost structure dominated by purchased inputs.
25 Thus one cannot blame any import related volume effects for

1 the cost increases that occurred after 1999. In addition,
2 the unfavorable volume variances are quite small relative to
3 the operating profit decline in each period.

4 Thus the only remaining causation question is
5 whether the subject imports contributed to any significant
6 degree to the 2002 price decline, and the answer is no.
7 U.S. hanger demand as measured in the staff report fell by
8 6.7 percent between 2000 and 2002 while the U.S. producers
9 average selling price fell by 4.6 percent from 2001 to 2002.

10 The majority of U.S. hanger production does not
11 compete with the very limited variety of Chinese hangers.
12 Nevertheless, as detailed in our brief, the data collected
13 by the Commission indicate that the price decline affected
14 all U.S. hangers, including those not subject to competition
15 from the subject imports. This indicates that subject
16 imports have not been the cause of the 2001 to 2002 price
17 decline. And remember, up to 2001 U.S. producers average
18 selling prices from 1999 actually increased.

19 All parties appear to agree that hanger demand is
20 inelastic to price. All other things being equal, a given
21 demand decline or demand curve shift in a market
22 characterized by inelastic demand and inelastic supply
23 should cause a greater than proportional price decline.
24 This did not occur in this case because the domestic supply
25 is elastic to price. There's no significant constraint on

1 adjusting production volume, and moreover the dominance of
2 variable costs and the large role played by purchased inputs
3 indicate that the producers' marginal cost curve should be
4 quite flat. These conditions define inelastic supply
5 function.

6 The delay in the price decline is not surprising
7 in light of the very poor market information available to
8 hanger producers and consumers. There are no published
9 price or volume data available, and markets tend to be
10 regionally fragmented. Accordingly, each market participant
11 must really principally on its own experience to spot market
12 turning points. This market is quite different from
13 semiconductors and steel, for example, both of which feature
14 a plethora of market volume and price information along with
15 demand forecasts of varying quality.

16 There is none of this in the hanger business
17 except perhaps for Dr. Shilling's work with Laidlaw.

18 In sum, the behavior of U.S. producers' average
19 hanger prices is well within the expected range of response
20 to a demand curve shift given the economic characteristics
21 of the market in the industry.

22 It's also worth noting that the average unit value
23 of hanger imports that are summarized in the public staff
24 report actually increased between 2000 and 2001 and from
25 2001 to 2002. The cumulative two year increase was 4.6

1 percent. The identity of the numbers is a coincidence.

2 Thus one cannot say that the domestic price
3 decline was a response to an import price decline.

4 To test the conclusion that U.S. producers' price
5 decline has been unrelated to subject imports Nathan
6 conducted a COMPAS simulation of the removal of all imports
7 from the U.S. market. The key parameter input is a highly
8 elastic domestic supply. In our view this condition agrees
9 with the Petitioners' economic characterization of the
10 domestic industry in their pre-hearing brief.

11 I should note however that we disagree with the
12 rather low supply elasticity range of one to four suggested
13 in the pre-hearing staff report. We'll comment further on
14 this in our brief, or I would be happy to comment in
15 response to a question.

16 The COMPAS results using value based market shares
17 calculated from the public staff report indicate a maximum
18 import price effect of only about one percent under the
19 extreme assumption that all imports from China were removed
20 from the U.S. market. And a COMPAS printout is included in
21 the back of the handout that you have.

22 I would stress that the COMPAS simulation
23 significantly exaggerates any recent import price effect.
24 It bears repeating that the simulation assumes removal of
25 all imports from the U.S. market. In addition the

1 simulation ignores U.S. producer control over captive import
2 volume and pricing. A simulation assigning the captive
3 import share to U.S. producers would of course produce
4 materially smaller price effects.

5 Finally I should note that the volume of imports
6 has imposed no significant penalty on U.S. producers' cash
7 flow. Given a very shall marginal cost curve and very low
8 fixed cost, any domestic volume related cash flow penalty
9 would be roughly proportional to the volume lost. Thus if
10 U.S. producers were to lose five percent of their volume to
11 non-captive imports, the effect would be a roughly five
12 percent reduction in net cash flow.

13 My final topic is threat. The characteristics of
14 the Chinese hangers sold in the United States, the situation
15 of the Chinese industry, and the foreign market outlook
16 belie any notion that there's a threat of injury. Imports
17 have been limited largely to certain caped hangers where the
18 Chinese producers enjoy some well recognized quality
19 advantages. Chinese producers have no such advantages in
20 marketing other hanger types to laundry and dry cleaner
21 customers.

22 In addition, Chinese hangers have no position at
23 all in the significant industrial hanger segment. This
24 specialization significantly attenuates the degree of
25 competition between hangers from China and the domestic like

1 product. Moreover there is no evidence that the Chinese
2 producers intend to significantly alter the mix of hangers
3 exported to the United States.

4 Logistics in the form of transportation and
5 material handling costs limit the geographic marketability
6 of hangers from areas accessible to seaports. Customers
7 must in general be able to handle container loads. Breaking
8 containers down and repackaging and reshipment in smaller
9 lots is labor intensive and costly.

10 The foreign producers' data indicate that Chinese
11 capacity expansion rates are reasonable and the utilization
12 rates are high. In fact by comparison with the domestic
13 industry they are very high. No significant Chinese
14 capacity or inventory overhang is evident.

15 Finally, Chinese domestic and regional Asian
16 markets are expected to grow rapidly. Taken as a whole,
17 these elements provide no basis for finding a threat of
18 material injury.

19 Thank you.

20 MR. LOEB: Madam Chairman, next we would propose
21 that the Commission hear from Linda Lo from Wells
22 Manufacturing USA, Incorporated. Ms. Lo has come in from
23 Los Angeles which is where she is based. She is a marketing
24 executive with Wells Manufacturing.

25 Linda?

1 MR. FLICKER: And Madam Chairman this is Scott
2 Flicker. One other housekeeping note, Ms. Lo has a longer
3 written statement but in the interest of time we'd like to
4 have her read a shorter statement for the record. We'd ask
5 for permission to submit the longer written statement as
6 part of the hearing record.

7 CHAIRMAN OKUN: Without objection.

8 MS. LO: My name is Linda Lo. I am with Wells
9 Manufacturing USA Incorporated which imports and sells a
10 variety of items made by Wells entities in China including
11 hangers.

12 I am here today to discuss globalization in the
13 bilateral dry cleaning market. By that I mean the
14 substantial opportunities in China for dry cleaning and
15 laundry services and how both U.S. and Chinese companies are
16 concentrating on that new market.

17 What is meant for the concern about market
18 disruption for the U.S. hanger companies? You know about
19 the astounding growth that has been occurring in China. One
20 effect of these changes is that there is a growing market
21 for dry cleaning services in China that we targeted years
22 ago.

23 Our long term plan is to develop an integrated dry
24 cleaning operation in major cities throughout China. The
25 Shanghai Wells hanger factory is only one of seven steps

1 toward that goal.

2 Later this year we expect to begin construction of
3 a fullscale dry cleaning processing center on a property
4 next to our Shanghai Wells hanger plant. We will pioneer in
5 china the neighborhood storefront dry cleaner shop.

6 Part of our plan to achieve this goal has been to
7 partner with Laidlaw. Laidlaw brings know-how in commercial
8 and retail dry cleaning supply business and in the dry
9 cleaning chemicals market.

10 Wells was not looking just for a distributor in
11 the U.S. for Shanghai Wells hangers. In spring of 2001 CHC
12 approached us and came to our offices where we decided that
13 Laidlaw had a much more global approach and a better
14 understanding for Chinese markets opportunities and how they
15 might contribute to that.

16 Wells does not see our hanger plant as a threat to
17 the U.S. industry.

18 Let me also add a point not in my prepared
19 statement, but a direct response to the testimony we heard
20 earlier today.

21 The Commission should know that Petitioner United
22 Wire bought hangers from us in 1997 and 1998. For United
23 Wire, a large volume of Chinese hangers was not a matter of
24 survival. United Wire Hanger Company did so at a time
25 before the Petitioners claimed to be having problems.

1 The only reason they stopped is because United
2 Wire Hanger Companies demanded an exclusive regional deal
3 and we were not willing to do so. So the deal that this is
4 a survival decision is inconsistent with my understanding.

5 Wells does not see our hanger plant as a threat to
6 the U.S. industry. We see it as a component in the broader
7 strategy that deals with the emerging Chinese market.

8 Most of the Shanghai Wells exports are going to
9 Laidlaw. But it is a two-way street. Our Shanghai Wells
10 plant gets the chemicals used in its powder coating
11 processes from U.S. sources and supports U.S. industry in
12 ways I cannot disclose in public.

13 What we are doing is what we hope for in the post
14 WTO China -- open trade and mutual benefit.

15 Thank you.

16 MR. LOEB: Madam Chairman, that concludes the
17 Chinese Respondents' presentation. We obviously, as you
18 would expect, have a number of comments on things that we
19 heard this morning, but we think it's probably smartest just
20 to go to questions. I think everything that we'd want to
21 say is likely to come out in questions and answers. So we
22 will yield back the balance of time and suggest we proceed
23 to questions.

24 CHAIRMAN OKUN: Very well. Before we begin the
25 questions let me also thank this panel of witnesses for

1 being here today, for providing your testimony. It's very
2 useful to our investigation and I'm going to start the
3 questioning this afternoon.

4 I think Mr. Shilling I'll start with you, and Mr.
5 Reilly can add anything that he wants to. But since there
6 is disagreement between the sides on what's going on in this
7 market, what role demand is playing and the impact.

8 So I guess the one thing when I was listening to
9 what you do and what you do for Laidlaw, and you may want to
10 submit confidentially, is whether you had prepared a
11 forecast of demand over the last five years prior to this,
12 if you could share it with the Commission for dry cleaning,
13 or for the hanger business I guess.

14 MR. SHILLING: Yes. We provide these forecasts to
15 Laidlaw every six months, as a matter of fact. Looking out
16 over the near term, the next couple of years. In one of
17 those, in the June as opposed to the December forecast, we
18 look out over the longer period on a five and ten year
19 basis.

20 CHAIRMAN OKUN: Could you provide those for the
21 record for us?

22 MR. SHILLING: I don't know. We did not. They're
23 Laidlaw's property. I couldn't speak to that.

24 MR. FAZZONE: I don't think there would be any
25 objection to that at all, Madam Chairman.

1 CHAIRMAN OKUN: If you could, not that I'm judging
2 whether you should have got the Wall Street Journal
3 forecaster of the year, but for hangers, it's always useful
4 to see what your forecasts were.

5 MR. SHILLING: If I may, I think I could
6 characterize those as being pretty negative in recent years
7 simply because of, as I mentioned, these longer term adverse
8 trends, and on top of that our earlier forecast that we
9 would have a recession of some substance. That goes back to
10 I think the year 2000. So I would say the forecasts and
11 what has happened have not been terribly different.

12 CHAIRMAN OKUN: Okay.

13 And looking forward, what do you see for this
14 market looking forward?

15 MR. SHILLING: It depends on the economy. As a
16 matter of fact we did a forecast in preparation for these
17 hearings and we made the assumption that we would have a
18 strong economic recovery and that the trend toward more
19 casual dress would be reversed. As a matter of fact that is
20 in my report and it did give us a double digit increase in
21 Laidlaw sales over the next eight quarters. We ram it out
22 eight quarters.

23 Obviously the inputs very much determine the
24 output. I would say that's probably an optimistic forecast,
25 but what it does show is that in line with our historic

1 forecasts, is that if you get a reversal of the adverse
2 trends and the very negative cyclical factors, the
3 recession, that sales do respond. There's nothing in our
4 work that suggests that this is a permanently disastrous
5 business.

6 CHAIRMAN OKUN: Mr. Reilly, did you want to
7 comment on that as well?

8 MR. REILLY: Thank you.

9 Unlike Dr. Shilling, I don't forecast hanger
10 demand and I only wish I had listened to his comments about
11 how the stock market would perform when he made them. But I
12 would like to make a couple of points.

13 My concern in terms of the trend of consumption
14 and so forth is really a data concern. Looking at what the
15 data collected by the Commission show and where the holds in
16 the data might be.

17 I wanted to comment that our review of the APO
18 data that's been collected to date, realizing there is still
19 some import volume and import shipment issues to be
20 resolved, suggests to us that the volume decline that I
21 discussed in my testimony is quite reasonable. And in
22 addition, I would note that, and we'll have more to say on
23 this in our post-hearing brief. In addition, I should note
24 that the volume decline that I mentioned from 2001 to 2002
25 was actually less than the distributors who testified this

1 morning said that their experience would suggest has
2 occurred.

3 Thank you.

4 CHAIRMAN OKUN: Thank you.

5 The other conversation this morning that I found
6 interesting was another colleagues' question regarding the
7 business cycle and Mr. Roby's comment that having been in
8 other businesses, this was not an industry where you saw a
9 large cyclical swing. And therefore the difference looking
10 in this POI is the imports because the cycle comes and goes
11 and they've made money in both times. I wonder whether you
12 could comment on that particular point about the business
13 cycle for this industry.

14 MR. SHILLING: I believe he previously indicated
15 he'd been with GE and that's a very different company. GE
16 obviously is spread over many many industries, but if you're
17 looking at the difference between a capital goods producer
18 which in many ways GE is, where you have a very very
19 cyclical pattern and you compare that with this business,
20 that's true. The cyclicalness is much less. But if you look
21 at the gross margins of GE versus the gross margins of this
22 business, then you start to equalize that in a hurry because
23 this is not an industry dealing with the kind of gross
24 margins that can take the sort of ups and downs of cyclical
25 demand that a GE, a capital equipment, and obviously a very

1 successful capital equipment producers, among other things.
2 They make light bulbs, too.

3 But what I'm saying is that it depends an awful
4 lot on what your cushion is of profitability. And this is
5 an industry where I think we've seen from the data the last
6 couple of years, there basically is no cushion.
7 Consequently a one percent decline in demand can be very
8 very tough on this industry where maybe a five percent
9 decline in some of GE's divisions wouldn't be pleasant, but
10 it wouldn't make that much difference.

11 CHAIRMAN OKUN: Okay. As part of your analysis of
12 this industry, how do you evaluate the capacity utilization
13 for the industry? And I'm not sure how much, most of the
14 information is confidential and I don't know how much you
15 can say on the record, but I guess my question would be for
16 an industry like this what would we expect in terms of
17 capacity utilization as it relates to profitability?

18 MR. SHILLING: That is not an area that we have
19 specifically looked at Laidlaw in the past. I'd make a
20 general comment though, that an old tech industry, which
21 this is, an industry without a lot of growth I think in
22 general, and this is without a lot of knowledge other than
23 what's come up in these proceedings and so on, I think a lot
24 of times there's a lot of obsolete capacity sitting around,
25 and I think if I were going to analyze this in detail to

1 make any specific conclusions, I'd want to know how much of
2 that capacity is really effective capacity at today's prices
3 and within the regional structure of the industry.

4 You can have a lot of old machinery around there
5 that sure, if prices triple it would be economic, but under
6 any reasonable conditions it's really just sitting on the
7 floor because nobody's gotten around to junking it.

8 CHAIRMAN OKUN: Mr. Reilly, did you look at
9 capacity utilization?

10 MR. REILLY: Yes, we did and actually quite
11 carefully. And I should, to repeat Commissioner Koplan's
12 comment this morning, capacity utilization in this industry
13 has throughout the period of investigation been quite
14 moderate. That said, there are a couple of other
15 characteristics of the industry that have to be taken into
16 consideration.

17 Number one, fixed costs are quite a low percentage
18 of total costs. Costs tend to be variable costs to the
19 greatest extent, and those variable costs consist in large
20 measure of purchased inputs -- the wire rod for example
21 being probably, being no doubt the most important.

22 That means that the industry can operate
23 profitably at this relatively moderate rate of capacity
24 utilization because it's marginal costs are quite low. All
25 it has to do is make a reasonable contribution over its

1 variable cost to get a profit. However, that doesn't mean
2 that the industry is efficient. I think if you look at the
3 sort of recovery plans that have been put into the
4 Commission by a number of the U.S. producers, you can see
5 that.

6 While the marginal cost curve and the average cost
7 curve of this industry is relatively flat, it's probably
8 higher than it should be. You can shift that marginal cost
9 curve down by closing excess capacity and using your
10 resources more efficiently. I think when you discuss the
11 closure of excess capacity as one of those who testified
12 this morning did, that's using capacity more efficiently,
13 that need seems to have been recognized quite awhile ago,
14 certainly before the industry fell into its period of
15 declining profitability, and the programs that I think we
16 heard discussed this morning were programs that were started
17 before the Chinese imports became of concern to the domestic
18 industry.

19 CHAIRMAN OKUN: My yellow light's on. I do want
20 to talk to the industry witnesses about what this all means
21 for your industry, but I think I'll wait for my next round
22 and I'll turn to Vice Chairman Hillman.

23 VICE CHAIRMAN HILLMAN: Thank you very much, and I
24 too would like to join Chairman Okun in welcoming you and
25 thanking you for taking the time to be with us this

1 afternoon.

2 I guess if I could start following up a little bit
3 more on these price issues, and ask perhaps to you, Dr.
4 Shilling, but others. A couple of the things that you said
5 to some extent contradicted some or the testimony we heard,
6 particularly from the distributors. I'm just wondering how
7 much data there is out there and how much we can draw from
8 that as opposed to what might arguably be anecdotal
9 information that we heard this morning. There are two
10 points that I'm sort of curious about.

11 The comments were made by Mr. Goldenberg and some
12 of the other distributors this morning that in fact a
13 recession doesn't necessarily mean a decline in demand for
14 hangers. People may have less garments but they're taking
15 better care of them and sending them out for dry cleaning.
16 So it seems to contradict your general notion that a
17 recession equates to a decline in demand for hangers.

18 And the second issue was this one of casual dress
19 where again the testimony was while the dry cleaners'
20 overall income, I mean your figure of laundry and dry
21 cleaning expenses vis-a-vis overall consumption may go down,
22 because it costs you ten bucks to clean a suit but only \$2
23 to clean a pair of pants, a pair of khakis. You can
24 understand that casual dress correlates to a decline in
25 laundry and dry cleaning expenses but not necessarily to

1 hanger demand. At least what I was hearing is in fact from
2 the distributors end of it, they haven't seen a significant
3 decline in demand for hangers as a result of casual dress or
4 as a result of a recession.

5 So I'm just wondering whether your data was sort
6 of specific to this or could address either of these two
7 issues.

8 MR. SHILLING: As far as the question of the
9 distributors, I was rather amazed at their statements too,
10 but as I recall in some follow-up questions by Commission
11 members, several of them said they had had 10 percent or I
12 think 20 percent was also a number mentioned in terms of
13 declines in business over the last year or so. So I don't
14 know how you would equate flat demand with a decline of 10
15 or 20 percent.

16 As far as the effects of this, a lot of this is a
17 question of data, and when we're analyzing this we're using
18 what data is available. We rely on things like employment,
19 like laundry and dry cleaning expenditures, other economic
20 factors because there are a long series of these available.
21 And when we find that they work in terms of forecasting as
22 they have over some 22 years, we have some conviction that
23 somehow there is a relationship there.

24 Again, you can't prove causality with statistics,
25 but I think the success of these over say more than two

1 decades in forecasting Laidlaw's sales suggests to us that
2 there is something to be said there. As I say, and
3 specifically in the last several years when without any
4 inputs from Chinese imports in terms of forecasts from
5 Laidlaw we saw the miserable, we forecast the miserable
6 circumstances that have developed.

7 So I would say simply that whether these
8 distributors are representative of the whole industry in
9 terms of the effects of casual dress or what, I sure don't
10 know. But I'm saying in aggregate, in looking at Laidlaw
11 specifically which is a major part of this industry, these
12 factors have been significant in our forecasting.

13 VICE CHAIRMAN HILLMAN: I guess if I could turn to
14 the industry witnesses on the issue of how prices work. I
15 want to just kind of confirm what we heard this morning in
16 terms of first of all, do you bundle? You are the one
17 producer that is producing not only hangers but also the
18 chemical products and sourcing the paper products and other
19 things that are selling.

20 Do you bundle those at all for sales? Do you --
21 I'll give you a little bit off on the hangers, but I'm not
22 going to give you anything off on the chemicals. Is there
23 any relationship between the other non-hanger products that
24 you sell versus your hanger prices?

25 MR. McWILLIAMS: I can't say that we haven't done

1 that in the past. It's generally not done.

2 The guys that are out there selling for us are
3 selling all three product lines. They really can't make any
4 decision as far as that goes. They have to run it through
5 the chain of command. And we pretty much keep it separate.

6 Then as far as, I think we gave you some invoices,
7 but as far as the Chinese product goes, whether we're
8 selling the Chinese product or the domestically made
9 product. It is priced the same.

10 VICE CHAIRMAN HILLMAN: Would you agree with the
11 testimony this morning that the price of a shirt hanger does
12 or does not affect the price of a caped hanger or of a strut
13 hanger? Does the price of -- Is somebody willing to take
14 less for one and more for another? Is there a price
15 relationship between the various types of hangers?

16 MR. McWILLIAMS: No. Years ago, and again we
17 provided this to you. We had an industry price list and we
18 worked on a discount off of that price list. So one market
19 might actually be buying at list price and one might be five
20 off, one might be seven off, and that sort of thing. Today
21 hangers are pretty much priced by the hanger. Every hanger
22 has a different discounted price to it off of a list.

23 VICE CHAIRMAN HILLMAN: Mr. Livermore, you
24 commented in terms of the issue of uniform industrial rental
25 hangers that the lead times were shorter than for other

1 hangers. Why is that?

2 MR. LIVERMORE: I don't think it's any shorter
3 than it is for our distributors but the point that I'm
4 making, in trying to do some analysis for this hearing we
5 talked with a number of our uniform rental customers, one of
6 which is the largest in the country. Most uniform rental
7 companies that build a plant to process uniforms to be used
8 by a manufacturing facility, most of their floor space is
9 spent for their manufacturing equipment and processing
10 equipment in our opinion and from our history. They don't
11 have the lay-down space to take in a month and a half supply
12 of hangers.

13 We very frequently will supply 200 cases every
14 other week to a uniform rental account and he relies on our
15 shipping him hangers on time. Very frequently we'll get a
16 phone call from a uniform rental account to our Kingman
17 plant from San Diego saying on my God, I just ran out of
18 hangers. Can you deliver them and we'll try and get them to
19 them tomorrow.

20 I don't think the way imports are being brought
21 into the country today they can accomplish that type of
22 service level. So the reasons that I was saying they can't
23 service that industry well is that industry has been
24 spoiled, quite frankly, by all of us who take part i that
25 business of being able to supply hangers very quickly to

1 them so that they don't have to inventory them.

2 VICE CHAIRMAN HILLMAN: I appreciate that.

3 How would you describe the price trends over the
4 last few years for uniform rental hangers?

5 MR. McWILLIAMS: I would say the last couple of
6 years that industry has been flat. In fact I think there
7 was reference this morning to the price increase that we had
8 announced in late April of last year and the other companies
9 followed suit and it eventually fell apart.

10 There's absolutely no reason why that increase
11 could not have gone through on the uniform rental side of
12 our business, but it did not. So although I don't think
13 they've come down, I think prices are flat and have been
14 flat.

15 VICE CHAIRMAN HILLMAN: and if I could make the
16 same request of you that I made of the Petitioners this
17 morning which is if you can provide us the same kind of
18 quantity and sales data for this rental uniform hanger over
19 the POI as you did for the products one through six that we
20 priced. I would very much appreciate that if you can do
21 that. I realize that would need to be submitted on a
22 confidential basis.

23 Thank you.

24 Mr. Reilly, if I can turn to you. Two issues.

25 One, you've obviously put up this chart indicating that the

1 prices were basically stable over the POI and you obviously
2 took that from the average unit values or the net sales
3 values. And yet I have to say when I then go into the
4 individual products, and I understand that you make the
5 point that you don't think there's been a big product mix
6 shift, but that is not the story that you see when you look
7 at the six products that we've priced. You clearly do not
8 see a sort of stable price pattern which partly makes me
9 question how much we should be relying on an analysis that
10 went in as it's going in assumption that prices had been
11 relatively stable.

12 Let me go ahead and let you comment on that.

13 MR. REILLY: Actually the conclusion that came out
14 of the analysis was that prices had been relatively stable
15 for two reasons. Number one, this is the data that the
16 domestic producers reported to the Commission.

17 VICE CHAIRMAN HILLMAN: But arguably so is the
18 prices of products one through six, and I look at all of
19 those and I'm not seeing stable prices.

20 MR. REILLY: I understand that. But the other
21 point is that the products one through six are not, in our
22 opinion, representative of the products that are produced
23 and sold by the domestic industry.

24 The number is APO but they represent a minority
25 and a significant minority of the total volume of hangers

1 sold by the domestic industry, and I'm talking now about
2 domestically produced hangers.

3 A significant majority of the hangers sold by the
4 domestic industry do not compete with the imported Chinese
5 product and the information reported by the domestic
6 producers covers of course their entire sales of the
7 domestic like product.

8 In addition, the conclusion that product mix
9 change hadn't affected those numbers was not something that
10 we came up with. It was actually drawn from the staff
11 report. That's the domestic producer's own conclusions.

12 So what would that indicate? That would indicate
13 that there was a decline in the price in products. The
14 alternative is that the domestic industry was doing
15 reasonably well on pricing its products that did not compete
16 with the Chinese imports. That's the only conclusion that
17 that data leads to. And it's a conclusion that the data
18 directly supports.

19 VICE CHAIRMAN HILLMAN: I see Dr. Shilling is
20 raising his hand too. Given that the red light is on, I'm
21 obviously going to have to come back to this issue because
22 one way you can interpret it is in in the instances in which
23 there is price competition, that's where you've seen the
24 prices come down, which I'm not sure is the conclusion you
25 really want us to be drawing from this. But given that the

1 red light is on I will come back to this.

2 Thank you.

3 CHAIRMAN OKUN: Commissioner Bragg?

4 COMMISSIONER BRAGG: Thank you Madam Chairman, and
5 I too would like to thank the panel for their participation
6 this afternoon, or actually for the whole day.

7 You've placed quite a bit of emphasis, in my
8 opinion anyway, on the 201 safeguard release that's been
9 imposed on wire rod, and you've looked at it as resulting in
10 increased costs for the domestic industry which then you're
11 stating resulted in a lower profitability for the domestic
12 industry.

13 However, the overall per unit cost of goods sold
14 data summarized in the staff report really indicates an
15 improving cost structure for the domestic industry between
16 interim 2001 and interim 2002.

17 So I guess my question is to what extent does this
18 data undermine your argument?

19 MR. LIVERMORE: If I may answer that. We have a
20 great purchasing department. Our rod costs went out of
21 sight from early 2001 to the present. What we have tried to
22 do to offset that is buy other raw materials much better
23 than we had been. Paper product prices have come down rather
24 dramatically on the same time that rod prices have gone up.

25 So recognizing that the numbers that we did submit

1 showed lower cost of goods sold numbers, we knew we were
2 going to get this kind of answer.

3 Our response is that if rod prices had not gone up
4 as much as we had indicated in our report to you, we would
5 have been much better off. In fact we would have been
6 profitable in 2002.

7 The cost savings that we put in place on paper,
8 for cape paper, tube paper, paint, all of those things we
9 did a very good job on from a purchasing standpoint.

10 COMMISSIONER BRAGG: Mr. Reilly, do want to
11 comment on that question?

12 MR. REILLY: The variance analysis indicates that
13 there was an improvement in cost between 2001 and 2002
14 although costs were still up relative to 1999. That
15 variance analysis covers the entire domestic industry so in
16 order to look at what happened with one individual firm
17 you'd have to do a variance analysis of that individual
18 firm's P&L statement.

19 But that said, the data in the aggregate do not
20 indicate that wire rod prices caused domestic producers
21 costs to increase between 2001 and 2002. Those costs in
22 fact in the aggregate did decrease. Now that doesn't mean
23 that wire rod costs didn't increase. What it means is that
24 to the extent that their wire rod costs may have increased,
25 there were compensating cost decreases in other areas.

1 That's the conclusion you can draw.

2 COMMISSIONER BRAGG: Thank you very much

3 My second question is, I've heard your arguments
4 regarding the deterioration in the performance of the
5 domestic industry and how you do view it as being
6 attributable to the cyclical nature of the industry and the
7 long term trend of declining demand for dry cleaning
8 services. I've heard that.

9 But my question is this. And this I would direct
10 to Laidlaw. To what extent has Laidlaw benefitted from the
11 availability of imports such that any of this deterioration
12 in its profitability, in your profitability, was minimized
13 at the expense of the other domestic producers?

14 MR. LIVERMORE: The margin improvement that we've
15 seen on the two products that we import which are strut and
16 cape, Laidlaw does not import white shirring. Our losses
17 would have been deeper without the margin improvement that
18 we had on those two major products. We would be happy to
19 include some data, if it hasn't been already, we'd be happy
20 to include some data on a post-hearing brief as we would
21 consider that information confidential at this point.

22 COMMISSIONER BRAGG: That would be very helpful.
23 Thank you for offering that.

24 Maybe a little more broadly also, to what extent
25 have domestic producers that also purchased imports captured

1 market share from other U.S. producers by virtue of their
2 access to the lower priced imports?

3 MR. LIVERMORE: I couldn't speculate on anybody
4 else's business. We personally don't think that the fact
5 that we have lower costs on a couple of products that we
6 import from Shanghai, because we price it the same in the
7 market place. So any market improvement, market share
8 improvement that Laidlaw may have incurred would be for
9 other marketing reasons, or better service, or people like
10 our chemical line as well as our hangers. But for the most
11 part, and I'm pretty certain it's almost everywhere, we
12 don't pass on the lower cost that's available to us from
13 Shanghai so it wouldn't be seen in the marketplace.

14 Laidlaw does not use the Shanghai connection to
15 bust the market. It's not our intent. Why would we want to
16 do that? We'd rather keep the money in our pocket.

17 COMMISSIONER BRAGG: Thank you again Mr.
18 Livermore.

19 Mr. Reilly, I basically just have one last
20 question and I'll put that to you.

21 You've argued that pricing information is not
22 disseminated efficiently in the industry, and yet this
23 morning's panel testified that importers are advertising
24 their lower priced product directly to the end users who
25 then pressure their suppliers for price concessions. To

1 what extent does this statement of what we heard in the
2 morning undermine your argument this afternoon?

3 MR. REILLY: I don't believe it does because the
4 information that an individual may be getting is information
5 that is specific to its market area and specific to say one
6 transaction and maybe one hanger. That individual has no
7 information about how many hangers whoever is offering that
8 low price has to sell, so no information from which to draw
9 any conclusions about how serious an effect on his business,
10 potential effect on his business or her business that low
11 price might have. That price may just affect a very small
12 volume of hangers available for sale for a very short period
13 of time. There's no time series information on prices
14 available. There's no volume information available, so that
15 people can assess the state of the market from period to
16 period.

17 Contrast what's available in this industry, for
18 example, with the flood of data that's available in the
19 steel industry or semiconductor industries which of course
20 the Commission is quite experienced with.

21 COMMISSIONER BRAGG: Thank you very much for the
22 answers to those questions. They were very helpful.

23 Thank you Madam Chairman.

24 CHAIRMAN OKUN: Commissioner Miller?

25 COMMISSIONER MILLER: Thank you Madam Chairman and

1 thank you as well to all of you for being here and
2 participating in the hearing today. It's very helpful.

3 Mr. Livermore, I'm going to come back to you
4 because I found your initial statement very interesting.
5 You're obviously very proud of what Laidlaw is doing, and I
6 guess I want to ask you to expand a little bit more about
7 Laidlaw and your decision to participate in the Chinese
8 market.

9 Laidlaw is a company in terms of -- You described
10 your objectives for Laidlaw several times as to be the low
11 cost global producer. Right? Okay. Do you produce, other
12 than the Chinese factory that you've teamed up with, do you
13 produce elsewhere in the world at all?

14 MR. LIVERMORE: We have a manufacturing facility
15 in Misasago, Ontario that services the Canadian market only,
16 and we have a manufacturing facility in Nogales, Sonoro,
17 Mexico that also makes hangers, but we sell them to retail
18 stores so it's not the industrial laundry and dry cleaning.

19 As far as overseas, our only connection is our
20 exclusive buying arrangement with the Shanghai Wells Hanger
21 company.

22 COMMISSIONER MILLER: You described that much for
23 the purpose of getting into the Chinese market. Again, if
24 yogi could just sort of talk about your decision to do that
25 and the degree to which it was about entering the Chinese

1 market as opposed to the Chinese participation in this
2 market. I'd like to understand the balance of the company.

3 MR. LIVERMORE: When you read Dr. Shilling's
4 forecasts for Laidlaw Corporation over the next five to ten
5 years you'd be concerned about making different decisions as
6 well.

7 This market we feel, if Dr. Shilling is correct,
8 is going to be fairly flat. There's going to be little or
9 no growth in dry cleaning. Dry cleaning plants close up and
10 they're replaced by someone else. There's, I think
11 historically there's been little or no growth. Most of the
12 growth in our opinion that occurs in the hanger business in
13 the U.S. is in the industrial uniform sector.

14 If I can recall the numbers, I think in industrial
15 uniform they've only tapped into about 30 percent of the
16 workforce that they could be tapped into. So there's a lot
17 of room for growth.

18 In trying to keep our employees busy here and
19 expand our business to protect our margins, we felt that we
20 had to look elsewhere. When we started our discussions with
21 the Shanghai Wells people we got tuned into Henry You's
22 ideas of selling Laidlaw chemicals to dry cleaners in China
23 with Shanghai Well hangers and our paper packaging
24 products and bundle it all together and starting a dry
25 cleaning business in China and other Pacific Rim countries.

1 This sounded extremely good to us. We spent a lot
2 of time trying to bring our Board up to date on that
3 information. We have four outside Board members that are
4 also concerned that if you're just a hanger manufacturer in
5 the U.S. today you're going to go through some tough times
6 if you don't have something else to do.

7 So that's the reasons why we've signed on to this
8 idea with Henry You who is President of Shanghai Wells
9 Hanger. That there is a wonderful market waiting for
10 someone in the Pacific Rim countries. The only thing that
11 is poor about it now is that most of the people in China
12 don't have good jobs. But as the standard of living
13 improves as it has in Japan, as it has in South Korea,
14 there's going to be a substantial market for dry cleaning
15 services. This gives us that opportunity.

16 In the mean time, we still want to be the low cost
17 producer to our home market which is here in North America.

18 COMMISSIONER MILLER: I guess we hadn't seen the
19 hanger industry here before because there weren't imports in
20 the hanger industry. I just sort of asked the general
21 question, why has the hanger industry avoided the import
22 competition up until now? What changed?

23 MR. LIVERMORE: I'm not sure I can answer that.

24 We would agree with all of the statistics that say
25 that hanger imports, there weren't any. So we're all

1 cruising along thinking we're not going to be affected by
2 that.

3 I don't know that I can answer it except that you
4 might want to ask Linda Lo. She might be able to tell you
5 why Henry You got interested in the U.S. market. Maybe it
6 was to gain experience. But they're here and there are
7 going to be other countries that import hangers in our
8 opinion. It's been proven that it can be done. We don't
9 think it's going to be an effective worrisome thing because
10 we find it difficult to get product into the middle of the
11 country.

12 To address that point, we cannot bring strut
13 hangers, for example, into the West Coast and get them to
14 our Metropolis, Illinois plant with costs less than our
15 Metropolis costs.

16 So the transportation costs preclude Laidlaw from
17 bringing containers of strut hangers, for example, into the
18 Midwest. How the chinese do it, I'm not sure and I wouldn't
19 want to try to speculate on how they do it. But we can't do
20 it.

21 The delivery cost of the product to our
22 Metropolis, Illinois plant from Los Angeles or all the way
23 from China is higher than our cost to produce in Metropolis.
24 That's why we don't think that it's a particularly onerous
25 thing that we've got some imports. It's just another market

1 dynamic that we all have to learn how to deal with,

2 COMMISSIONER MILLER: You did say, I want to make
3 sure I heard you correctly. It will be in the record, but I
4 think you said toward the end of your initial testimony that
5 you said something to the effect that you don't dispute that
6 there's been a decline in prices due to Chinese imports in
7 the last year or so. And so I wanted to let you just
8 elaborate on that a little bit.

9 At least in that regard you are somewhat in
10 agreement with the other producers that we heard from this
11 morning.

12 MR. LIVERMORE: We could sit here and say that
13 some Chinese imports haven't affected some markets. Our
14 believe is that they've only affected certain markets. The
15 New York, New Jersey, Massachusetts area, because of the
16 Port of New York; and the West Coast area because of the
17 Port of Los Angeles.

18 We are the major importer of product on the West
19 Coast, and our numbers actually match up with what we heard
20 earlier today. Seventy percent of our imports stay on the
21 West Coast.

22 I just don't think -- There are places where we
23 have, any U.S. producer may react too quickly to a request
24 to match a hanger price. We like to think that we're the
25 last one to fold. Again, I'm not so naive to think that

1 there hasn't been some place where we've reacted too quickly
2 as well.

3 We try to sell the fact that where are you going
4 to get all your other hangers? Where are you going to get
5 your dry cleaning chemicals if you stop buying from us?
6 Where are you going to get your paper packaging products?
7 Where can you get hangers tomorrow if you need them? You
8 can't get them from a Chinese importer that's going to give
9 you a 30 or 60 day lead time.

10 So we like to try to fight it by other means. So
11 yes, hanger prices have gone down, and I heard this morning
12 that, I believe one of the producers said their prices had
13 dropped 25 percent since 2000 and our prices have gone down
14 seven percent. On a average all over the country. We've
15 only seen a seven percent drop in our average selling
16 prices.

17 COMMISSIONER MILLER: Average meaning across the
18 board, all the different products that you sell.

19 MR. LIVERMORE: Right.

20 COMMISSIONER MILLER: Have you seen more of a
21 decline in the products like the, maybe not even strut.
22 Well, the white shirt hanger?

23 MR. LIVERMORE: We don't import white shirt
24 hangers.

25 COMMISSIONER MILLER: I know you don't import

1 them, but you produce them.

2 MR. LIVERMORE: Let me ask Brent --

3 CHAIRMAN OKUN: Mr. McWilliams?

4 Save your voice, Mr. Livermore. I'm sorry to make
5 you --

6 MR. LIVERMORE: Thank you.

7 MR. McWILLIAMS: I would say in a lot of regions
8 in the country white shirt hangers, the price that we well
9 them to the distributor at has gone down in the last year.

10 COMMISSIONER MILLER: More so than for example the
11 strut hangers?

12 MR. McWILLIAMS: Yeah. Because strut hangers have
13 been something that the Chinese has just come in, have just
14 started to bring in in the last, have been doing it for
15 about a year now. No more than a year.

16 COMMISSIONER MILLER: I appreciate -- Oh, the
17 yellow light's on. I have a couple of data questions that
18 I'll throw out there for the economist if I could. One I
19 know is definitely, Mr. Reilly, for you.

20 If you could provide us with the data source for
21 your table, let me make sure I'm looking at the right thing.
22 The table that you used to estimate different, the declines
23 of prices and products where there is import competition
24 versus where there is not. It's your Table 5. I just think
25 it's not clear to us at this point or to the staff what your

1 data source was for all of that.

2 MR. REILLY: I'll be happy to, and I can describe
3 it generally now.

4 The data source for the domestic producers
5 aggregate shipments were the APO shipment volume and value
6 data from the questionnaires.

7 The data or products that are subject to import
8 competition, the volume and value data. We aggregated the
9 volume and value data for the pricing products on an annual
10 basis.

11 If you deduct the pricing product information from
12 the total, the difference is equal to those products that
13 are not subject to import competition. We'll put it down in
14 writing for you.

15 COMMISSIONER MILLER: I see my red light is on so
16 I'm going to have to stop at this point.

17 Thank you.

18 CHAIRMAN OKUN: Commissioner Koplan?

19 COMMISSIONER KOPLAN: Thank you Madam Chairman,
20 and I thank the witnesses for their responses to the
21 questions thus far.

22 Dr. Shilling, the Chairman had asked you and
23 counsel agreed that you would submit forecasts that you had
24 provided I think you said on a six month basis to Laidlaw.

25 I just want to make sure when you do that that you

1 start with 1997 when you were predicting forward. In other
2 words that you cover our period of investigation because if
3 I heard you correctly you were doing that back then as well.

4 MR. SHILLING: and obviously this is with
5 Laidlaw's permission. We'd be happy to. The only thing is
6 we have to see what we have in our files back in our
7 offices, but we'll do our best to do something.

8 COMMISSIONER KOPLAN: Just so you understand, that
9 can be submitted on a confidential basis. And I see that
10 Mr. Livermore understands that as well.

11 MR. LIVERMORE: We'd be happy to do that.

12 COMMISSIONER KOPLAN: Let me stay with you if I
13 could for a moment, Mr. Livermore.

14 Why in your opinion has the domestic industry
15 failed to adopt coding and capping processes that the Chinese
16 producers and importers assert is what purchasers want?

17 I'll say to you this morning as I recall what I
18 heard from the domestic side when they testified was that as
19 far as they're concerned, quite simply that it's cost. It's
20 more expensive. It's not a quality issue as far as they're
21 concerned. And I think the statement was that from one of
22 our witnesses, that it would increase the cost 50 percent I
23 think is what he said.

24 Let me hear from you as to why you think it's the
25 case. Do you agree with this? That that's the reason?

1 MR. LIVERMORE: That might be one point that we do
2 agree with the Petitioners. We did an analysis not too
3 very long ago and our conclusions were very similar to what
4 Mr. Roby reported this morning. However, we've got a
5 painting system in our Mexico plant that's adaptable to
6 powder costing because it's a painting system that's done
7 electrostatically with a gun just like powder coating is.
8 and I've asked that plant manager to develop some
9 information for us as to what it would cost us to powder
10 coat hangers on a line like that? That report's due on my
11 desk the end of this month.

12 But our analysis to this point is that the
13 equipment is very expensive, so the cost of capital is very
14 difficult to justify today with today's earnings number.
15 And it can be an environmental situation where you have to
16 do it in an enclosed booth. So those things have to be
17 taken into consideration.

18 The way it's being done in china from my
19 knowledge, I don't think we could do it that way in the
20 United States because of environmental and OSHA regulations.

21 COMMISSIONER KOPLAN: If that's available in a
22 timely fashion for our consideration would you submit that
23 confidentially for the record?

24 MR. LIVERMORE: Yes, sir. I will.

25 CHAIRMAN OKUN: Thank you. Dr. Shilling, if I

1 remember correctly, I thought you stated in your direct
2 testimony that Chinese imports have a very small effect on
3 domestic prices. But this morning the distributors were
4 saying that their clients, the dry cleaners, are requesting
5 lower cost Chinese imports and manufacturers are importing
6 those because they say they can't manufacture product here
7 as cheaply as the Chinese can.

8 Particularly, it started with Mr. Mindich and I
9 think the others joined in on that.

10 So how then can you conclude that Chinese product
11 has such a small effect on prices?

12 MR. SHILLING: We looked at the data provided by
13 the producers questionnaires, and by the way I might say in
14 reference to the Vice Chairman's comments, were were looking
15 at a weighted number of the six products which definitely do
16 show price declines in contrast to Mr. Reilly's overall
17 analysis which is what I was trying to mention. And that
18 gave us quarterly data, that we had 23 quarters from the
19 first quarter of 1997 to the third quarter of '02. That was
20 our analysis period. What our statistical analysis in
21 effect showed was that the Chinese prices had virtually,
22 they had a tiny effect, as I say. If Chinese prices
23 declined one dollar it would knock two cents off of domestic
24 prices, but very small effect and not terribly statistically
25 significant.

1 Again, you can't prove causality with statistics.
2 The next question, is that a logical result? Does it make
3 any sense? That's where we turn to looking at the factors
4 that would substantiate that statistical conclusion like the
5 reality that the Chinese imports are coming into limited
6 geographic areas of the country, like as Mr. Livermore
7 pointed out, that you can't move those to Illinois. He
8 pointed out to me last night that you can't take a sea-going
9 container, put it on a barge and unload it at their plant in
10 Illinois. He said I think as far north as maybe Memphis,
11 but there are no facilities.

12 In other words, it's a geographically oriented
13 importation. And also the fact that a lot of these imports
14 are coming in through Laidlaw and several other U.S.
15 producers who are not basically using those to undercut
16 other producers and buy market share.

17 I think those are the logical factors behind our
18 statistical conclusions.

19 COMMISSIONER KOPLAN: Let's assume that our record
20 when we, by the time all is said and done indicates a
21 substantial number of examples of lost sales and lost
22 revenues during this period.

23 MR. SHILLING: I'm sorry, sir?

24 COMMISSIONER KOPLAN: Assume that when all is said
25 and done our record that develops in this case establishes a

1 significant number of lost sales and lost revenues during
2 the period that we're examining where Chinese product is
3 priced lower. How would that affect your statistical
4 analysis?

5 MR. SHILLING: The way we put this model together
6 it really wouldn't. We were using Chinese prices and I
7 don't think that additional data on import -- I would
8 assume. I'm not sure, but I would not think that additional
9 information on Chinese import prices from importers who were
10 not reported in the initial sample would make much
11 difference.

12 COMMISSIONER KOPLAN: Let me just create an
13 example. Let's say there's a producer offering a price of
14 \$10 and let's say that the Chinese product, that particular
15 product, is being offered for \$5. If there was a pattern of
16 that would that affect your statistical analysis?

17 MR. SHILLING: Oh, sure.

18 COMMISSIONER KOPLAN: Okay.

19 MR. SHILLING: I don't think there's anything in
20 the sample period that we have so far that suggests that.
21 And if I may, let me add one more thing which really
22 certainly struck me in the testimony we heard this morning
23 about being killed by prices, other people cutting prices
24 and so on.

25 We are in a world where very few U.S.

1 manufacturers have any control of prices today. On Wall
2 Street we call it lack of pricing power.

3 If you look for example at total non-financial
4 corporations and their overall prices, it's called a price
5 deflator. What you find is in the last four quarters that
6 they have all been negative. In other words, there are very
7 few industries in this country who can pass on costs or
8 anything else by raising prices. To suggest that this
9 industry is somehow unique and getting killed by one factor,
10 Chinese imports, goes against the grain of what's happening
11 in American industry today.

12 COMMISSIONER KOPLAN: I appreciate your response.
13 I see my red light is about to come on. I'm going to save
14 the balance of my questions for the next round. Thank you
15 very much, sir.

16 MR. SHILLING: You're welcome.

17 CHAIRMAN OKUN: Mr. Shilling, one of the things I
18 was just thinking about this industry was who was the price
19 taker. I guess you're commenting on that.

20 But I guess the questions within industry where
21 you have had historically very high market share and
22 distributors handling most U.S. product, not a very
23 globalized market if you will. Does that affect what you're
24 just saying about prices, where the impact would be seen or
25 whether there would have to be more or less price

1 concessions?

2 MR. SHILLING: I'm sorry. Could you --

3 CHAIRMAN OKUN: In other words this is an industry
4 where you had high U.S. market share. Not one where there
5 were lots of imports in there.

6 Does that impact when we're talking about what one
7 would estimate or what one models or what one looks at in
8 terms of how prices are impacted by imports coming into the
9 market?

10 MR. SHILLING: One of the things that I think
11 you're certainly very familiar with today that's come up at
12 least in the last ten years or so was the question as to
13 whether a concentrated industry is necessarily a non-
14 competitive industry. I think that in the globalized world
15 we have today, a world of basically excess supply where
16 nobody has any pricing power, I think the general conclusion
17 is, and I think it applies to this industry, that having a
18 relatively concentrated industry doesn't remove competition.

19 My sense is that the petition probably would have
20 never been filed if this were a concentrated industry where
21 everybody was getting price increases whenever they felt
22 like it and fact and happy profits.

23 CHAIRMAN OKUN: Thank you for those comments.

24 Ms. Lo if I could just turn back to you. I think
25 I heard in response to Commissioner Miller the discussion

1 about Mr. Livermore in terms of geographic sales and what
2 you find is cost prohibitive in terms of where you would
3 sell different product to, in particular strut hangers.

4 Ms. Lo, I wonder if your experience for Wells is
5 difference in terms of where product is being sold including
6 product on the East Coast, in terms of the impact of
7 transportation costs or unbundling costs or any of these
8 other costs, if the experience for you is different than
9 what we heard from Mr. Livermore.

10 MS. LO: Yes, I agree with Mr. Livermore.

11 In Wells the hangers we sell to West Coast and
12 East Coast. It is geographic in a regional manner because
13 there is two ports, East Coast and West Coast as everybody
14 knows. If you want to go from China to the U.S. or overseas
15 to the U.S. there is only two ports that's a destination.
16 And after that you're going to go inland to the whole United
17 States across the country. That's very very costly. In
18 other words how you can afford that? Even we are an
19 importer we can't afford that. From the port and go into
20 maybe Montana or somewhere very middle of the country, is so
21 costly and that definitely is, I agree with Mr. Livermore,
22 it is a limitation of the geography and the regional.

23 CHAIRMAN OKUN: The limitation, I want to make
24 sure I understand you, if you're going to be selling in the
25 western region, depending on how these are defined, you

1 would bring them in in a port, in the LA port.

2 MS. LO: Correct.

3 CHAIRMAN OKUN: For those sales that you're making
4 on the East Coast you're bringing them into the East Coast
5 and selling them --

6 MS. LO: Yes.

7 CHAIRMAN OKUN: -- in the eastern region.

8 MS. LO: Correct.

9 CHAIRMAN OKUN: Are your prices different? Can
10 you comment here on what you're selling and bringing it into
11 the LA port versus bringing it into a New York port?

12 MS. LO: Of course it's different.

13 CHAIRMAN OKUN: The higher prices are?

14 MS. LO: East Coast.

15 CHAIRMAN OKUN: Okay.

16 MS. LO: Because it depends on the freight, ocean
17 freight. You talk about distance from China overseas to Los
18 Angeles is closer.

19 Let's just say that time wise. Only took you two
20 weeks to the Long Beach port but toke you four weeks or five
21 weeks to the New York port. The freight charge is extremely
22 different.

23 CHAIRMAN OKUN: Okay, I appreciate those further
24 comments.

25 Mr. Reilly, I wanted to turn back to I think what

1 you were ending your discussion with Vice Chairman Hillman
2 about the pricing and I just wanted to make sure I
3 understood, because I heard Vice Chairman Hillman's last
4 comment which is what I was thinking which is you were
5 arguing that where there weren't imports prices remained
6 stable. Where there were imports prices declined. And I
7 was wondering, doesn't that hurt you not help your case?

8 MR. REILLY: No, I don't think it hurts us at all.
9 This is a somewhat what I will call different case. We have
10 a situation in which it's abundantly clear that the
11 substantial majority of the volume and value of the product
12 that the domestic industry produces is completely insulated
13 from competition with the Chinese products. So the vast
14 majority of the domestic like products that are produced by
15 the domestic industry don't compete with the Chinese
16 products, are not subject to any competition. Therefore the
17 amount of influence that the Chinese product can have on the
18 domestic producer's average prices for the entire like
19 product is extremely constrained.

20 CHAIRMAN OKUN: I want to make sure I'm clear on
21 what you're arguing. You're saying that because, from this
22 pricing data, the pricing data covers the small set of
23 domestic prices, products, quantity wise, and --

24 MR. REILLY: And value wise.

25 CHAIRMAN OKUN: And value wise. And a much larger

1 outside, and that's what you're looking at. Even though the
2 prices were lower for the Chinese -- Even though the prices
3 declined where there was competition, that doesn't, that the
4 impact on the industry's bottom line, on its operating
5 income? Is that the --

6 MR. REILLY: That's correct. And as far as the
7 conclusions about prices are concerned, the data are what
8 the data are. We will comment on that in our post-hearing
9 brief.

10 CHAIRMAN OKUN: What about in terms of the
11 Commission's practice, you've been here many times. One of
12 the things we look at is underselling and trying to
13 determine what's happening.

14 You're conceding the underselling is there but
15 that you just don't think that it matters because most of
16 these products aren't the ones that are being undersold? Is
17 that --

18 MR. REILLY: That's kind of a difficult one in
19 this case. Generally what the Commission attempts to do is
20 to gather a set of pricing products that is representative
21 of what the domestic industry produces and of course what's
22 being imported. In this case it was impossible because the
23 imports represent a very small subset of what the domestic
24 industry produces.

25 What I'm saying is that the pricing product

1 information you have and whatever conclusions that leads to
2 applies only to those pricing products and you have to
3 consider in evaluating that information how important or
4 unimportant those pricing products are to the health of the
5 domestic industry.

6 The other thing I think you must consider is that
7 a significant and a very significant component of those
8 pricing products and the growth of those pricing, imports of
9 those pricing products recently represent captive imports by
10 the domestic industry.

11 We heard testimony this morning that the domestic
12 industry doesn't underprice itself. If they're selling a
13 white shirt hanger from China and a white shirt hanger
14 produced in one of the U.S. plants, they're selling it for
15 the same price.

16 So basically where they're making money is perhaps
17 on getting a big higher margin on the Chinese hanger.

18 I believe that Mr. Livermore would confirm that
19 Laidlaw doesn't underprice itself either.

20 In that respect, the pricing of the hangers from
21 China is certainly not undermining the domestic industry.

22 the other point I guess I'd make would be to, in
23 terms of survival strategies and so forth, look at the
24 proportion of imports, captive imports, relative to the
25 total business these companies are doing. And my conclusion

1 is they're not importing enough for these imports to be
2 their survival strategy. If imports were their survival
3 strategy they've be importing a hell of a lot more. And
4 pardon my French.

5 (Laughter)

6 CHAIRMAN OKUN: My time's going to run out and I
7 didn't even get beyond that question but I think I'll just
8 have to come back if it's not covered. I'll turn to
9 Commissioner Miller.

10 COMMISSIONER MILLER: Thank you, Madam Chairman.

11 I actually wanted to come back first I think Mr.
12 Shilling to you. I had one data question but there was an
13 exchange you had a bit ago I think it was with Commissioner
14 Koplman and you said something about this industry is no
15 different than any of the other industries, U.S. industries
16 we're looking at which are facing this sort of deflationary
17 pressure.

18 My question, having not read your books, I'm
19 sorry, I apologize.

20 MR. SHILLING: If you need a copy, it's yours.

21 (Laughter)

22 COMMISSIONER MILLER: Does international
23 competition have a role in your deflation theory?

24 MR. SHILLING: Absolutely. We list, as a matter
25 of fact the first of these books was written in 1998, the

1 second one in 1999, a sequel. And in both of those we list
2 14 deflationary forces. Among those are the growing excess
3 global supply with Asia as a primary supplier. Another one
4 is the rise of new market economies, China certainly being
5 among those.

6 You get deflation when you've got more supply than
7 demand. Just like you get inflation when you've got more
8 demand than supply. I don't think it's any more complicated
9 than that. There are many many forces.

10 The rise of new technology today is equally
11 important. The lack of Cold War government spending is
12 another factor. The reorganizing of the U.S. distribution
13 system. This is the WalMarts and Home Depots of the world.
14 As I say, there's a total list of 14 of these factors
15 including now U.S. consumers switching from 20 years of
16 borrowing and spending to a saving spree that I outlined in
17 my prepared remarks.

18 But certainly what's happening outside this
19 country is part of it.

20 COMMISSIONER MILLER: Outside this country, but in
21 many ways what's happening outside is translated into this
22 economy through the mechanism of imports, isn't it?

23 MR. SHILLING: Oh, absolutely. Absolutely. We
24 are in a global economy.

25 COMMISSIONER MILLER: It strikes me that contrary

1 to the question being is this industry different than
2 others, it's exactly like so many industries that we see --

3 MR. SHILLING: No, I don't think this industry is
4 different than others. I would say if anything this
5 industry is behind a lot of others.

6 If you look at the investment in China today, the
7 foreign investment in China today, the U.S. accounts for
8 about half of it. I think it runs something like \$250
9 billion annual rate. I'd have to check those numbers. But
10 this industry if anything is probably behind. I may be
11 speaking with bias, but I'd say Laidlaw has been a leader in
12 recognizing what's happening in the world and saying this is
13 just a fact of life.

14 COMMISSIONER MILLER: Thank you.

15 One technical sort of statistical thing I wanted
16 to make sure I understood, in your submission, your pre-
17 hearing submission and your testimony today when you refer
18 to laundry and dry cleaning, the statistics on laundry and
19 dry cleaning, for example the expenditures and such.

20 MR. SHILLING: Right.

21 COMMISSIONER MILLER: What's encompassed in
22 laundry and dry cleaning? That's more than hangers
23 obviously. You're using it as --

24 MR. SHILLING: I'm sorry. I didn't mean to
25 interrupt you.

1 COMMISSIONER MILLER: Please.

2 MR. SHILLING: This is a component of consumer
3 spending as assembled by the Commerce Department. In other
4 words, it is consumer spending on laundry and dry cleaning
5 services. It's not what the industry buys, it's what the
6 industry sells. I apologize for not having made that
7 definition clear.

8 COMMISSIONER MILLER: It was probably in there,
9 but when I heard it today I wasn't totally sure. So I knew
10 it had to be broader. In the sense that it is a broader
11 indicator, sometimes those work for what we're looking at it
12 as product here, and sometimes they work less well. It just
13 depends on what everything else is that's in that.

14 MR. SHILLING: Again, as I indicated in an earlier
15 question, hangers are only a very small part of this
16 obviously, and if we were coming at this de novo I'd
17 probably have a lot of questions myself. But the fact that
18 we've been doing this for Laidlaw for 22 years and these
19 same variables have worked for so long gives me some
20 confidence that there is, that whatever the relationships
21 are and whatever the errors and biases are, at least they're
22 consistent through time, and that's what you need for any
23 forecast. You don't need absolute certainty but you need
24 consistency in any errors, shall we put it that way.

25 COMMISSIONER MILLER: I appreciate that. I

1 appreciate your testimony today.

2 MR. SHILLING: Thank you.

3 COMMISSIONER MILLER: I wanted to go to Ms. Lo for
4 a few minutes if I could, partly because Mr. Livermore
5 suggested I should be asking you why the Chinese have shown
6 the recent interest in this market, so let me do that.

7 At the same time, if you could give us a better
8 understanding of the Chinese market for hangers. I may know
9 the U.S. market for hangers all too well. I don't really
10 know what the Chinese market for hangers is.

11 You talked about the dry cleaning business, but
12 let's be more specific and talk about the Chinese market for
13 hangers, whatever that may be.

14 MS. LO: Yes, some data input is kind of
15 confidential but I can overall talk about, I talked to Henry
16 You which is Shanghai Wells owner and the president a couple
17 of days ago before I come here. He observes very clearly
18 the hanger business in China is growing. As I addressed
19 earlier in the statement, is growing extremely, astounding
20 growth.

21 Over there as you know the trends have been
22 changed. The hanger business in China is potential and it's
23 a good opportunity for everybody can do good hangers over
24 there. Right now in Wells is quality and the operation,
25 management is everything, is very westernized and

1 Americanized. It's very organized. I'm sure Shanghai Wells
2 hanger in China is a good opportunity for them to be,
3 produce the hangers there.

4 You asked me how is the market over there. As I
5 say, it's a trend. In Japan and Hong Kong and Taiwan, any
6 other Asian country, a lot of professionals and the dress
7 difference. You know. In China they literally changing
8 right now.

9 I don't know, have you been Shanghai, Peiking, big
10 cities? You amazed. Which country are we in? Are we in
11 America? Are we in Europe? You might find out. Because
12 personally what I tell to everybody in the audience, I been
13 China first time couple of years ago. I went to the
14 Shanghai factory and amazed, I say I am the one dressed
15 casually and they so professional, dress well, my other
16 coworkers.

17 So if you ask me the hanger business in China, how
18 they doing right now, I can say is growing. Right now is
19 just the trend. Literally they change.

20 Did I answer your question?

21 MR. LOEB: Could I add just one brief comment?

22 COMMISSIONER MILLER: You and then Mr. Shilling.

23 MR. LOEB: Just to supplement what Ms. Lo said,
24 Ms. Lo brought with her last night portions of an analysis
25 that was commissioned by the head of the Wells Group, Henry

1 You, which is Y-O-U for the record. And this analysis was
2 done by a consulting firm in China. It's in Chinese, but
3 the relevant part which we will submit in post-hearing
4 briefing I'll just hold up. It's a graphic and you may be
5 able to see it at this distance. This is the growth in one
6 dry clean distributor in the Beijing area, the number of
7 outlets. From three in 1997 to 180 in 2002. And that kind
8 of growth, that kind of opening of the retail dry clean
9 service, much like yogi have in the Western countries, U.S.
10 and elsewhere, is really a key driver behind Chinese hanger
11 prospects over the course of the next one, two and five
12 years, say.

13 COMMISSIONER MILLER: I'll come back to Mr.
14 Shilling, but Mr. Loeb, just apropos of your comment and
15 what you have there, which you're intending to submit even
16 if it's in Chinese? You said it started in 1997.

17 If you could in your post-hearing submission,
18 however, then address how I look at that as compared with
19 the data that I see in Table 17 of our pre-hearing report.
20 Just to kind of close any confusion there.

21 Mr. Shilling?

22 MR. SHILLING: Yes. Just a comment. You may have
23 seen last Sunday's New York Times business section. The
24 front cover story was talking about the growing middle class
25 in China and the tremendous growth in purchasing power there

1 and pointed out among other things that China is now the
2 world's largest market for cell phones.

3 I think this indicates the wisdom of Laidlaw's
4 strategy, and Wells as well in going into China not so much
5 for exports but to tap ultimately a 1.3 billion person
6 market.

7 COMMISSIONER MILLER: Thank you. I appreciate all
8 of your responses and your testimony today. It's been very
9 helpful.

10 CHAIRMAN OKUN: Now I'll turn to Vice Chairman
11 Hillman.

12 VICE CHAIRMAN HILLMAN: Thank you very much.

13 Ms. Lo, actually if I could I'd like to stay with
14 you in terms of making sure I understand as much as I can
15 about Wells' situation in China.

16 Do you have only one plant that manufacturers
17 hangers in China, or do you have more than one?

18 MS. LO: You talk about hangers?

19 VICE CHAIRMAN HILLMAN: Hangers.

20 MS. LO: The hanger only one. But Wells is multi-
21 business. We also have other factories. But hangers
22 themselves just one.

23 VICE CHAIRMAN HILLMAN: Okay, that's what I needed
24 to know.

25 You mentioned in your testimony that you do a lot

1 of business sort of back and forth and you specifically
2 mentioned that your powder coatings are purchased from the
3 United States. If yogi can say it on the record, are those
4 purchases from Laidlaw? If that's confidential information
5 feel free not to answer that question. You can submit it in
6 a post-hearing response.

7 MR. LOEB: We will respond in a post-hearing brief
8 on that point.

9 VICE CHAIRMAN HILLMAN: Fair enough.

10 Can you tell me what portion of the hangers that
11 you produce are powder coated?

12 MS. LO: The hanger and the particle that we do
13 have shirt and a cape and struts.

14 VICE CHAIRMAN HILLMAN: Is every hanger that you
15 produce in this plant in Shanghai powder coated? Or only if
16 requested?

17 MS. LO: Only by request.

18 VICE CHAIRMAN HILLMAN: Can you tell me, and again
19 if it's confidential please submit it for the record.

20 The price difference between what you would charge
21 for a product that's been powder coated versus what yogi
22 would sell the same product for if it were not powder
23 coated?

24 MS. LO: That's confidential.

25 VICE CHAIRMAN HILLMAN: Fair enough.

1 If you could, Mr. Loeb, if that could be submitted
2 in your post-hearing brief.

3 MR. LOEB: We will do that.

4 VICE CHAIRMAN HILLMAN: I'd appreciate that.

5 Ms. Lo, do you know from that plant in Shanghai do
6 you export to anywhere other than the United States?

7 MS. LO: Yes. It's confidential. We'll submit
8 it. But yes, we do ship to other countries.

9 VICE CHAIRMAN HILLMAN: Mr. Loeb, for you I would
10 second Commissioner Miller's request. I have heard your
11 testimony about the tremendous growth in demand for dry
12 cleaning services in China and I too share the same question
13 about whether that squares with the data that we have in
14 that table in terms of domestic shipments within China. So
15 I would ask you also to take a look at that.

16 MR. LOEB: We certainly will do that, but if I can
17 just give you an initial one sentence response. We aren't
18 meaning to oversell the point in terms of immediate effects
19 in China. There is an increase projected in the, I believe
20 that's the table that would include projected 2003 Chinese
21 home market sales. It does go up, but the point here is
22 more to illustrate that what's being done, the investment
23 that was made by the Wells people, the distributorship
24 relationship they set up with Laidlaw, is not aimed
25 exclusively, is not a dagger pointed at the heart of the

1 U.S. hanger producers. It's part of a strategy which seems
2 quite reasonable and potentially exciting from a business
3 perspective to take advantage of what is likely to be
4 substantial growth over a several year period in China.

5 A piece of that strategy is in place now which is
6 the new plant that was opened by Shanghai Wells at the
7 beginning of 2002. We don't mean to oversell it in the
8 sense that the numbers in 2003 are going to dramatically
9 increase within China, although they do go up. Also in
10 terms of any long term threat though, I think that is a
11 material and relevant point.

12 VICE CHAIRMAN HILLMAN: I appreciate that.

13 I'm trying to figure out whether there is a better
14 way for us to look at this issue of regional concentration
15 or regional demand. I guess I'm asking more a data question
16 since you're in the industry, which is are there figures
17 available on where dry cleaners are located in the United
18 States or sort of where your demand points are? I just
19 don't know whether there is trade associations out there or
20 others, Mr. McWilliams, you mentioned that you came from
21 this fabric care trade association.

22 MR. McWILLIAMS: Right.

23 VICE CHAIRMAN HILLMAN: I'm just wondering, you're
24 looking at someone that grew up in sort of farm country in
25 the Midwest where I would venture to say that very few

1 people spent a lot of money on dry cleaning. We were all
2 sort of farmers and threw everything in the washing machine.

3 I don't know whether demand is. You made the
4 argument that the Chinese product is concentrated on the
5 West Coast and the East Coast. I don't whether demand is
6 also concentrated to some degree outside of rural
7 communities.

8 I'm just wondering whether you would point us to
9 any data source, whether there is any readily available data
10 that would suggest where demand for dry cleaning services is
11 located.

12 MR. McWILLIAMS: I still work with the trade
13 association and I used to work for them. I'm on their Board
14 right now so I do get together with them several times a
15 year.

16 They would have a list of membership that we could
17 probably supply. I'm not really sure what good that would
18 do.

19 VICE CHAIRMAN HILLMAN: I'm needing quantity. I'm
20 just sort of curious. Again, if there were a readily
21 available set of data about where the demand for dry
22 cleaning services is located, I would be very interested in
23 it. If it's not readily available, fair enough.

24 MR. McWILLIAMS: I think the figures that you have
25 probably would allow this to hold up. But we have always

1 used 14 hangers per person as the number of hangers that are
2 consumed in the United States in a year.

3 VICE CHAIRMAN HILLMAN: And there's no sort of
4 urban, rural correlation or --

5 MR. McWILLIAMS: What you could do is go, for
6 example go to Los Angeles and we could do this for you. But
7 you go to a city, figure out how many people are there, and
8 you could get a pretty good feel for how many hangers are
9 going to be consumed within that region.

10 VICE CHAIRMAN HILLMAN: Fair enough. That's
11 probably as easy way to look at it as any.

12 Mr. Livermore?

13 MR. LIVERMORE: I might add that Dr. Shilling's
14 every six month report to us breaks Laidlaw's market
15 forecast down to our four regions which are centered around
16 our four plants, so you might learn something from that when
17 we submit those.

18 VICE CHAIRMAN HILLMAN: I appreciate that and I
19 will be sure to take a look at that. Thank you very much.

20 Mr. Reilly, I guess the one sort of other kind of
21 comment or question I had with respect to your analysis.
22 You obviously, and this again gets back to this issue of the
23 prices that you looked at and this issue of the average unit
24 values as opposed to the specific products. But my, and
25 your variance analysis. And as I heard your testimony,

1 you're basically telling us that in your view it's the cost,
2 the changes in cost to some large degree. Obviously that
3 ignores the large price variance in 2002 but that you're
4 focusing on cost.

5 My question for you and it's perhaps to some
6 extent also a legal question, even if the industry
7 profitability was negatively affected by rising costs, would
8 this not be a sign of potential price suppression? It's not
9 showing us a depression, but why should I not necessarily
10 look at a high cost variance as indicating to me that price
11 suppression is occurring?

12 MR. REILLY: Well a cost variance simply means
13 that costs have increased. It has nothing to do with price.

14 VICE CHAIRMAN HILLMAN: My point being that
15 obviously these folks would like to pass along price
16 increases. Cost increases, I'm sorry. Rod goes up,
17 chemicals go up, et cetera. Theoretically everybody would
18 like to go out to the distributors and say hey guys, our rod
19 prices are up, our chemical prices are up, paint prices are
20 up, whatever else is up. Sorry, but you're going to have to
21 absorb a higher price because our costs have significantly
22 gone up. Obviously our prices are indicating that did not
23 happen.

24 Why as a practical matter should I not take that
25 as a sign that there is price suppression occurring?

1 MR. REILLY: There's two kinds of cost increases
2 One is cost increases where you have to pay more for what
3 you buy to put into your plants. But interestingly enough
4 if you look at the 1999 to 2001 period, it was a period of
5 actually falling prices in the United States, falling prices
6 for wire rod, and probably falling prices for the other
7 factor inputs. So the question I have is, and I think the
8 question the Commission might want to ask the domestic
9 producers is, why were their costs increasing?

10 Certainly what I know about factory costs would
11 indicate their factory costs were declining. Certainly they
12 weren't paying more for wire rod in 2001 than they were in
13 1999, so why did their costs go up?

14 VICE CHAIRMAN HILLMAN: Fair enough.

15 My last question and it's perhaps to some extent
16 directed Mr. Loeb, to you. But I have to say this whole
17 exchange that we've had this afternoon with Mr. Reilly on
18 this issue of the prices of six products that we priced
19 versus the average unit sales, and I think your testimony
20 both in response to the questions I asked and to Chairman
21 Okun was very clear, and yet it strikes me as completely the
22 opposite of what you argued in your brief. Your testimony
23 today was basically saying that the prices of the products
24 where there was competition has gone down, but that it's
25 limited. It's only a certain small volume. And therefore

1 we should not assume that the Chinese are having a
2 significant impact on the market. And yet in your brief you
3 directly argue that the products that were not subject to
4 import competition showed the same price effects as those
5 that are subject to competition. So they strike me as
6 completely opposite arguments and I would only ask you given
7 that the red light is on and that we've heard a lot about
8 this issue this afternoon, to try to square the testimony
9 that you've given this afternoon with the arguments that
10 were made in the brief, because they do strike me as coming
11 to a completely opposite conclusion.

12 So it's more of a sort of look at the transcript
13 and what was said here this afternoon versus the sort of
14 contrary arguments that were made in the brief.

15 MR. REILLY: Well a one sentence response is this.
16 When we're talking about the behavior of prices being
17 similar, we're looking at what happened between 2001 and
18 2002.

19 We have a situation in which the aggregate prices
20 were stable from 1999 through 2001, and then the aggregate
21 price declined between 2001 and 2002. We broke the
22 aggregate price decline over that period into two parts.
23 And basically it showed that in that period those products
24 subject to competition, those subject products not subject
25 to competition had the same price decline.

1 What we'll do for the post-hearing brief is take
2 that data series and give it to you for the entire period of
3 investigation.

4 VICE CHAIRMAN HILLMAN: Thank you very much.

5 CHAIRMAN OKUN: The response brings to mind the
6 question of if you ask an economist or a lawyer for one
7 sentence, they tell you a one sentence answer, which one's
8 going to take longer?

9 (Laughter)

10 CHAIRMAN OKUN: We have a lot of experience in
11 that.

12 A lawyer, Commissioner Koplan?

13 COMMISSIONER KOPLAN: I feel vindicated just
14 listening to that response.

15 (Laughter)

16 COMMISSIONER KOPLAN: Mr. Reilly, you're on the
17 APO list to receive confidential business information. In
18 listening to this discussion let me pick up and say this to
19 you.

20 For purposes of the post-hearing I'd appreciate it
21 if you would look at Tables 25 through 30 in the
22 confidential staff report that's at Roman Number I, page 57
23 through page 62. And tell me what's wrong with those tables
24 for the post-hearing.

25 I would also say to you that shortly you'll be

1 receiving tables that cover traditionally, as we do in our
2 reports, alleged lost sales and lost revenues. I'm not
3 sure, but the numbers of those tables could be 31, 32,
4 somewhere in that area. I'd like you to look at those
5 tables when you get them, and in reviewing this information
6 let me know how that would affect your response post-
7 hearing. Okay?

8 MR. REILLY: Certainly.

9 COMMISSIONER KOPLAN: Thank you.

10 Mr. Shilling, when I was tossing a hypothetical at
11 you with regard to a possible lost sale or a lost revenue,
12 you are also on the list to get this kind of information and
13 you will be receiving in a timely fashion tables that
14 reflect, as I indicated, that would cover the issue of lost
15 sales and lost revenues and I'd like you to look at those
16 tables and let me know how that would affect your
17 statistical analysis or what have you. When you get them.

18 MR. SHILLING: Excuse me. Being new at this,
19 these are tables that Mr. Reilly will be producing for --

20 COMMISSIONER KOPLAN: No, no. They'll be coming
21 from the Commission. These are tables that will be coming
22 from the Commission.

23 MR. SHILLING: Okay. Thank you.

24 COMMISSIONER KOPLAN: Tables 25 to 30 you have
25 now.

1 MR. SHILLING: Yes.

2 COMMISSIONER KOPLAN: Because you're on the
3 confidential, what we call the pink list.

4 MR. SHILLING: Correct.

5 COMMISSIONER KOPLAN: The tables that refer to
6 lost sales and lost revenue, you don't have them yet but you
7 will. That will be coming from us.

8 MR. SHILLING: Thank you.

9 COMMISSIONER KOPLAN: Thanks.

10 Let me just ask you while I have you, the
11 forecasts that you made, and I don't want to beat this to
12 death, but the forecast that you made back from '97 and
13 beyond, did they include demand forecasts?

14 MR. SHILLING: There forecasts that we make for
15 Laidlaw include, they're basically the shipments from their
16 plants and they do, my understanding is that they do include
17 those that are imported in effect to those plants and then
18 repackaged, et cetera, and sold to distributors and other
19 customers.

20 COMMISSIONER KOPLAN: So it would include demand
21 forecasts or it wouldn't?

22 MR. SHILLING: My understanding is it does include
23 imports because --

24 COMMISSIONER KOPLAN: That was going to be the
25 second part of my question.

1 MR. SHILLING: I'm sorry. I apologize.

2 We didn't forecast industry demand per se. We
3 were looking at prices in our modeling work.

4 COMMISSIONER KOPLAN: In doing that did you
5 foresee imports coming into the marketplace?

6 MR. SHILLING: Yes to the extent that the prices
7 of Chinese imports would affect domestic prices. That's
8 what we were concentrating on. We weren't in that work
9 attempting to forecast total U.S. consumption.

10 COMMISSIONER KOPLAN: Okay. So you would take
11 into account, you would be forecasting subject and non
12 subject imports as well?

13 MR. SHILLING: No.

14 COMMISSIONER KOPLAN: The Chinese.

15 MR. SHILLING: We're looking at the price of
16 Chinese imports, but not the quantity.

17 COMMISSIONER KOPLAN: Okay. I'll have a better
18 feel when I get copies of these, when we get copies of these
19 submittals.

20 MR. SHILLING: I'm trying to be responsive but I'm
21 having a little trouble understanding -- Maybe there's some
22 misunderstanding as to what it is we were doing in that
23 model.

24 It is explained in some detail in our submission
25 which is Appendix 9 to the pre-hearing brief.

1 COMMISSIONER KOPLAN: Okay. You've covered it for
2 me. Thank you. I look forward to seeing it.

3 MR. SHILLING: Thank you.

4 COMMISSIONER KOPLAN: Let me turn, Mr. Loeb, if I
5 could to you.

6 It appears that imports had very little presence
7 in the domestic market until recently as it's alleged that
8 most of this took place in 2001 and in the interim period of
9 2002. You asserted in your pre-hearing brief that the
10 increase in imports from China has been caused for the most
11 part by domestic producer purchases. Tell me how your
12 presence in the market has grown over the POI vis-a-vis
13 increased interest by domestic producers.

14 For example, do your clients intend to enter the
15 market for uniform industry customers?

16 MR. LOEB: The ones that I have talked about that
17 have uniformly, I don't mean to use a pun, they have
18 consistently responded no on that, and we've heard a variety
19 of the reasons here. I won't repeat them. But I'll just
20 say it's the same set of reasons that have been described.
21 It's a set of customers that operates in a different manner
22 and that the people who are doing the current importing into
23 the U.S. don't see as a target market for them at the
24 present time.

25 COMMISSIONER KOPLAN: Aside from the United

1 States, what are the major global customers?

2 MR. LOEB: In terms of countries?

3 COMMISSIONER KOPLAN: Yes.

4 MR. LOEB: The countries would be principally --
5 Well, step back one second.

6 There are domestic hanger industries, that is to
7 say a dry cleaning type demand in several countries that
8 have been named here today including Europe, Japan, Taiwan
9 and Korea. The --

10 COMMISSIONER KOPLAN: Where does the U.S. rank in
11 that?

12 MR. LOEB: I don't know. I don't know anyone who
13 has those figures. I believe the U.S. would be probably
14 considered anecdotally by people in the industry as the
15 largest market. In terms of Chinese export penetration to
16 those other markets, there is some data in the record with
17 respect to third country exports that show an interest in
18 those markets as well.

19 COMMISSIONER KOPLAN: You've noted the Chinese
20 capacity utilization is near full utilization levels. And
21 you projected that they're going to remain there. Am I
22 correct?

23 MR. LOEB: That's correct.

24 COMMISSIONER KOPLAN: Is there a substantial dry
25 cleaning and uniform industry in China? What kind of a home

1 market is there for this product now?

2 MR. LOEB: As we sit here today there is a growing
3 home market for dry cleaning. I do not know about uniform,
4 something that is equivalent to our, what we're calling our
5 uniform, our industrial market here. I just simply haven't
6 asked that question.

7 In the dry cleaning side I do know there is a
8 market that has begun to emerge. You see it in the chart
9 that we'll make as part of our post-hearing brief where
10 there are now a rapidly growing number of dry cleaning
11 outlets that you would recognize if you were on the street
12 in Beijing. There are, and that's what our, Linda Lo's
13 company, Shanghai Wells and the Wells Group is attempting to
14 bring particularly to Shanghai.

15 COMMISSIONER KOPLAN: So you'll be quantifying
16 that for us as best you can?

17 MR. LOEB: As best we can, we can quantify that.
18 Yes. In the post-hearing brief.

19 COMMISSIONER KOPLAN: What's the global market
20 like for the product and what do you project global demand
21 to be? Do you project it to increase?

22 MR. LOEB: I could not say. I don't know that any
23 of the Chinese producers who we represent, I don't know if
24 they have such worldwide figures and I'm not aware of any
25 independent source that would provide a global demand

1 projection of that kind for hangers.

2 COMMISSIONER KOPLAN: If you can consult, in the
3 post-hearing I'd be interested, assuming there is
4 substantial growth, how you intend to meet demand in the
5 global market if you're at the capacity levels that you say
6 you're at now and where you think you want to be.

7 MR. LOEB: We certainly will respond to that.

8 COMMISSIONER KOPLAN: If the Chair will indulge me
9 just for one second. This is for post-hearing.

10 Similar to the question asked of Petitioners by
11 Mr. Gearhart of our staff this morning, in your post-hearing
12 brief if you could identify what you consider the like or
13 directly competitive domestic product and the domestic
14 industry producing that product. That's the question that
15 was posed this morning by Mr. Gearhart.

16 MR. LOEB: We'll certainly do that. Our
17 understanding has been that all sides agree there's a
18 definition in the petition of what a hanger is and we're all
19 talking about the same thing here.

20 COMMISSIONER KOPLAN: That's fine. I just wanted
21 to close the loop on that for the record.

22 Thank you very much, Madam Chairman.

23 CHAIRMAN OKUN: Thank you. You've all been very
24 patient, but unfortunately I still have some more questions
25 so I'm going to keep going here.

1 Before I start with my questions just a few things
2 that I wanted to let (Lors) know because as has been made
3 reference to, this is only the second time we've conducted a
4 Section 421 investigation. The time tables are tighter than
5 what we do in some other investigations.

6 So with regard to the lost sales, lost revenue
7 information that Commissioner Koplan has been referring to,
8 there will be an APO release of that data tomorrow where
9 parties will have an opportunity to comment before it
10 arrives in the final staff report because again, it's very
11 near the end of this so you will have an opportunity. It's
12 just slightly different than we would operate normally on
13 the schedule.

14 The other thing that that relates to is we don't,
15 if the Commission were to vote in the affirmative and we
16 moved to remedy we don't have a second opportunity to see
17 you or hear from you so I would like, I know you will be,
18 having now seen those who support relief, you've seen their
19 proposed remedy or parts of their proposed remedy some of
20 which is confidential, I would like to hear particularly
21 from Laidlaw, Mr. Livermore and Mr. McWilliams, how you
22 would evaluate what would be the long and short term effects
23 were the commission to impose a remedy that were a tariff on
24 particular products. And let's just take the figure they
25 threw out of one cent per hanger in the public session. If

1 you were to be paying that for import, what would be the
2 impact on your business?

3 And if you could talk in terms of two things that
4 I'm interested in. One, whether you think there would be
5 more impact on your market share or on your margins.

6 MR. LIVERMORE: Of that were the case we would
7 have to produce more product in the United States which
8 would have some impact on our margins.

9 CHAIRMAN OKUN: So in terms of margins versus
10 market share, you think you could maintain your market
11 share, the market share you have now if there were a tariff
12 imposed, but you'd have tighter margins? Is that --

13 MR. LIVERMORE: I think that's a good way to put
14 it.

15 CHAIRMAN OKUN: Do counsel want to comment or the
16 economists want to comment on the remedy proposed as you
17 know it?

18 MR. LOEB: Let me begin and then I'd like, we'll
19 get a lawyer comment and then the economist comment, and I
20 hope mine is shorter.

21 I think first there is an issue for the Chair and
22 the Commission that I would ask the Chair and the Commission
23 to consider.

24 It's somewhat extraordinary to have a proceeding
25 where the requested remedy is subject to confidentiality. I

1 wonder what the Petitioners plan to do if they get that far?
2 Do they expect the Commission to publish a final
3 determination and a recommendation that would go over to
4 USTR that brackets what the remedy proposed is? It's hard
5 for me to imagine. I personally think that that proposal
6 should become unbracketed, and we would suggest to the
7 Commission it would be easier to deal with it if it did. I
8 think it's sort of a bootstrap argument that the reason you
9 can't unbracket it is because it's based on certain APO
10 data. Therefore it would reveal what the underlying APO data
11 is.

12 Secondly, on the remedy that's proposed with
13 respect to the specific tariff remedy, I think the points
14 were made this morning that there are no precedents for it,
15 it's disfavored, and it would have a differential impact on
16 different products. The thing that we've thought about and
17 not yet resolved our thinking on is we wonder how it's
18 calculated as a silver bullet to get at the Laidlaw folks.
19 That's what we think may be going on there. But we haven't
20 yet broken it down at that point.

21 The other thing I want to say about the remedy
22 proposal here really relates to a key issue in this 421
23 proceeding which as we've said repeatedly is really the
24 first significant one of its kind.

25 Here was Bruce Malishevich's rationale for the

1 remedy that was proposed. If you impose an ad valorem remedy
2 the Chinese might price their product even lower so the
3 value of the product as imported would go lower, so the ad
4 valorem remedy would become less significant, and that would
5 repeat itself until you got basically down to zero price and
6 zero remedy.

7 Well Bruce of course is quite familiar with a
8 different statute called the antidumping laws. You wonder
9 why these Petitioners are not here with an antidumping
10 proceeding which among other things does not put the same
11 kind of strain and time pressures on the Commission or the
12 parties that a 421 proceeding does. If what their real
13 complaint is is Chinese pricing, then let's put it in the
14 context that we've all known for years and years as to how
15 you get a remedy for that.

16 This is really a shortcut route to the kind of
17 remedy that they would hope to get but obviously would have
18 a much harder path toward under the antidumping law. A
19 Section 421 certainly is not meant for that kind of use,
20 particularly where there is a ready remedy available.
21 Safeguard provisions are not meant for that kind of use
22 generally.

23 So with respect to the remedy from a lawyer's
24 standpoint, and then I'll turn it to the economist, what
25 we've heard is a proposed remedy without precedent. It's

1 sort of 19th Century, I would say. I mean I think we quit
2 doing these kind of things back before the 20th Century
3 dawned. But principally I think the Commission should
4 recognize it for what it really is which is just a way to
5 try to circumvent the requirements of the antidumping laws,
6 and what I heard today suggests to me that that's really the
7 case that the Petitioners have.

8 MR. FAZZONE: If I could just add for a second to
9 Mr. Loeb's comments, and I think because of the nature of
10 the response, most of it involves APO material. We would I
11 guess just broadcast it in the post-hearing brief. We would
12 argue, we will argue that any remedy here would be
13 ineffectual for various reasons that we'll go into in the
14 post-hearing brief and including some obvious reasons that
15 have been presented here.

16 Suffice it to say the Laidlaw Corporation feels
17 that the impact of imports is so insignificant in this case
18 when you look at the overall market that you couldn't impose
19 a remedy that would actually provide the kind of relief to
20 the industry that the Petitioners would like to get and what
21 they're seeking.

22 We will elaborate on that and provide you with our
23 thinking on that as well, but we just don't see any remedy
24 that would provide relief of the sort that they're
25 requesting.

1 CHAIRMAN OKUN: Mr. Reilly?

2 MR. REILLY: The Petitioners' pre-hearing brief
3 did leave unbracketed in their public version a figure of 50
4 percent, so our conclusion is what they're proposing is
5 their equivalent of a 50 percent tariff.

6 We simulated the effect of a 50 percent ad valorem
7 tariff on the volume of imports and basically the volume of
8 imports would disappear. There would be no imports under a
9 tariff at that level and the benefits to the domestic
10 industry as Mr. Fazzone indicated, would be minimal. Price
11 effect, maximum price effect in our view of less than one
12 percent and no significant volume relating to cash flow
13 benefit.

14 Thank you.

15 CHAIRMAN OKUN: Mr. Shilling?

16 MR. SHILLING: Yes, I would agree that per unit
17 tariffs of the sort that have been proposed would basically
18 price Chinese imports out of the market. But again I would
19 point out we are in a global world, and to think that that
20 would somehow be the end of imports one way or the other I
21 think is a bit naive. Whether they would come in then from
22 Mexico, India, be transhipped from China somewhere else.
23 We've certainly seen that in a number of steel products over
24 the years. And there may be other problems.

25 I mentioned earlier I was a beekeeper. So I was

1 particularly interested in the antidumping lawsuits against
2 China and Argentina last year.

3 As you're probably aware, the import tariffs
4 against Argentina were almost immediately wiped out within
5 days by a collapse of the Argentine peso which means that
6 even paying the tariffs the Argentines can land honey in
7 this country at lower prices than they could before the
8 tariffs. So you do have to consider the King Knut kind of
9 issue here if you're trying to hold back the tide.

10 CHAIRMAN OKUN: I appreciate those comments. I
11 will look forward to seeing further comments in your brief.
12 I would note, as Commissioner Miller did earlier, for you to
13 also comment on how you would evaluate the impact of a quota
14 versus a tariff for this industry as part of that.

15 The other thing which I guess I would like to hear
16 some comment on in the public session but to include is how
17 you would evaluate the impact on the downstream industries
18 and whether it has, I guess if we look at a greater impact
19 on the distributors or on the dry cleaners or the consumers.

20 Do you have any thoughts on that for open session?

21 MR. LIVERMORE: I think a lot would depend on how
22 we price the product after all that was accomplished.

23 The one point that I'd like to point out and one
24 of the things that Laidlaw is concerned about is the 421 is
25 a method to go after Chinese imports. Hanger equipment is

1 very mobile. You unplug it and you can move it. I think
2 what you'll do is you will dislocate imports from China to
3 some other country that's looking for an opportunity to sell
4 products to the United States. It's been proven that you
5 can sell hangers in the United States from overseas, and
6 someone else will fill that void as sure as we're sitting
7 here. It happens in the rod business, it's happened in the
8 steel business forever. Some country like Moldova, and you
9 all are very familiar with the 201 case that just came
10 through.

11 Rod is available from other countries. So the
12 countries that got shut out, Mexico, Trinidad, Moldova,
13 Germany, et cetera, they've just been replaced by other
14 people and the same thing is going to hold true in our
15 opinion on imports. That's why it's our opinion that the
16 market has to settle this out. The market has to decide as
17 the economy picks up and as people go back to work, this
18 will all settle itself out. I think the market can do a
19 much better job of it than imposing a short-lived problems,
20 give the short-lived problems to the Chinese when you can
21 move the equipment some place else.

22 CHAIRMAN OKUN: Thank you for all your comments.

23 Let me turn to Vice Chairman Hillman.

24 VICE CHAIRMAN HILLMAN: Thank you very much.

25 Given the lateness of the hour I would only sort of

1 piggyback on these questions more again for the post-hearing
2 brief to add a couple of other issues as you're discussing
3 this whole issue of remedy.

4 We understand that your bottom line is you'd like
5 none and if there has to be any for as short as possible.
6 But if you could brief there issue of the length of the
7 remedy. Again, this statute unlike others does not set any
8 time limits on how long a remedy should be in place. Again,
9 I'm asking you to take a look at given this industry and the
10 nature of the competition within the industry, what would
11 you suggest we should look at, what kind of timeframes for
12 remedy strike you as making sense, understanding your
13 fundamental opposition to it?

14 And similarly, unlike the Section 201 statute this
15 one does not specifically reference the notion of adjustment
16 to import competition or a time in which the industry should
17 use this period of relief to do anything in particular.

18 Does this mean in your view we shouldn't consider
19 that? Or if we should, again, what things should we be
20 looking at in terms of both what the industry should be
21 doing and how long would it take for it to make any
22 adjustments to import competition? Again, they're much more
23 sort of how do we read various provisions of other statutes
24 into or don't read them into Section 421.

25 With that I also join my colleagues in thanking

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1 you very much. You've been extraordinarily patient and very
2 very helpful and we appreciate your testimony and we
3 appreciate your time.

4 Thank you.

5 CHAIRMAN OKUN: Commissioner Koplan?

6 COMMISSIONER KOPLAN: Thank you, Madam Chairman.

7 Just two quick things. First, Mr. Loeb, I think
8 Mr. Reilly covered your question about the bracketing of the
9 duty bracketed in one place, but not in another.

10 MR. LOEB: Well, it's bracketed as to what the
11 exact proposal is. There is an indication of a percentage,
12 and if you want to perform the exercise I think you could
13 say that it's been revealed, but we certainly don't feel
14 like we can say anything about it publicly unless we were to
15 hear from the Commission that it's considered unbracketed.

16 COMMISSIONER KOPLAN: Well, let me do it this way.
17 For purposes of the post-hearing, Mr. Waite, I'd appreciate
18 it if you would respond to Mr. Loeb's request and tell us
19 what objection you would have.

20 MR. WAITE: Actually, Commissioner, we have no
21 objection. Out of an abundance of caution --

22 COMMISSIONER KOPLAN: Okay.

23 MR. WAITE: -- we bracketed that information. We
24 happen to believe that all the information we bracketed in
25 that section should be publicly available, but since the

1 underlying information had been bracketed in the prehearing
2 staff report and in explaining our methodology in computing
3 that number, out of an abundance of caution, as I said, we
4 bracketed it.

5 We would certainly have no objection to
6 unbracketing that information, and we don't believe that
7 unbracketing that information would disclose any
8 confidential information.

9 COMMISSIONER KOPLAN: Does the Chair have a
10 reaction to that?

11 CHAIRMAN OKUN: Let me ask the staff. Mr. McClure
12 or Mr. Gearhart?

13 MR. MCCLURE: Jim McClure, Office of
14 Investigations. I believe our consensus over here is that
15 we would have no objection to the unbracketing. No. No.
16 I've spoken with Mr. Benedetto. John, would you like to --

17 It's fine with staff if it's unbracketed.

18 CHAIRMAN OKUN: Okay. There you have it.

19 Resolved.

20 MR. LOEB: Thank you.

21 COMMISSIONER KOPLAN: Okay. I have just one last
22 thing. For the Petitioners, for the post-hearing if, Mr.
23 Malashevich, you could comment on Dr. Shilling's assessment
24 that Chinese imports, and I'm sure he's going to do this
25 anyway. That Dr. Shilling's assessment that Chinese imports

1 are not having a significant affect on domestic hanger
2 prices.

3 Can you just do that again, Mr. Waite, for him
4 with the microphone?

5 MR. WAITE: I heard Mr. Malashevich, and he said
6 he would certainly do that.

7 COMMISSIONER KOPLAN: Thank you very much. With
8 that, I have nothing further, and I'd also like to thank
9 this panel for its contribution this afternoon.

10 Madam Chairman?

11 CHAIRMAN OKUN: Thank you. Just for counsel, I
12 will have a few post-hearing questions which relate to the
13 question that we've discussed and that you've raised in your
14 brief about how we treat the volume of the domestic imports.

15 I have different questions for you than I have for
16 the Petitioners, but I do think they are legal questions,
17 and I will get those to you as soon as I can for you to
18 respond to. With that, I don't have any further questions.

19 In Attachment 7 -- I guess, Mr. Fazzone, this is
20 for you -- there were some documents detailing opportunities
21 in China and Asia. We ask that you submit those entire
22 documents bracketing whatever you believe is confidential,
23 but at this point it looks like something has been redacted.

24 MR. FAZZONE: Yes. Madam Chair, if I could
25 address that? We had two choices when we were looking at

1 those documents. The documents relate to correspondence
2 between the Wells Company, acting on behalf of Shanghai
3 Wells, and Laidlaw. There were sections that really didn't
4 relate at all to the points that we were trying to make and
5 in fact really didn't relate to the investigation as far as
6 we were concerned, but did involve business information
7 between the companies.

8 We thought well, we could request business
9 proprietary treatment for that information, but again
10 because we didn't think it was relevant to the investigation
11 we were in a little bit of a quandary as to how best to
12 handle that.

13 I think if you wouldn't mind, I would like to at
14 least discuss with Laidlaw whether or not they feel that the
15 information is something that really shouldn't be on the
16 record at all in those other sections and then maybe defer
17 to your judgment as to how best to treat it under those
18 circumstances.

19 CHAIRMAN OKUN: You can consult with your counsel
20 and then consult with staff and with the Secretary's office
21 in terms of how to handle that.

22 MR. FAZZONE: Yes, please, if you don't mind.
23 Yes.

24 CHAIRMAN OKUN: With that, let me see if staff has
25 questions for this panel.

1 MR. MCCLURE: Jim McClure, Office of
2 Investigations. Staff has no questions, and I'm sure
3 everybody in the room will be thrilled to know that I have
4 no further remarks.

5 CHAIRMAN OKUN: Not true.

6 Do those in support of relief have questions for
7 this panel?

8 MR. WAITE: We have no questions, Madam Chairman.

9 CHAIRMAN OKUN: Okay. Let me go over the time
10 allocations, and then we can switch chairs around. Before I
11 do that, let me again just thank all of you for your
12 testimony and for your willingness to answer our questions.
13 I know it's a long afternoon, but the information is very
14 helpful.

15 In terms of time remaining, those in support of
16 relief have a total of 13 minutes. This includes five for
17 closing. Those in opposition to relief have a total of 14
18 minutes, including their closing remarks.

19 With that, we will let this group of witnesses go
20 and look forward to seeing the attorneys come up.

21 (Panel excused.)

22 CHAIRMAN OKUN: Mr. Waite, if you can just give
23 the folks a moment to sit down so that we can hear your
24 remarks?

25 (Pause.)

1 CHAIRMAN OKUN: Very well. You may proceed.

2 MR. WAITE: Thank you, Madam Chairman. Madam
3 Chairman, members of the Commission, the Respondents have
4 raised several points in order to make this case appear more
5 complicated than it really is. The record makes it clear
6 that in this investigation the domestic industry is
7 suffering material injury caused directly by rapidly
8 increasing imports from China.

9 We will address in more detail in our confidential
10 post-hearing brief the arguments that Respondents have made,
11 but I wanted to take this opportunity to go briefly through
12 a few of the points now.

13 First, the record in the case does not support
14 Respondents' claim that increased costs are the cause of the
15 domestic industry's woes. The data collected by the
16 Commission show that costs have remained relatively
17 constant, and, as discussed here today, certain raw material
18 costs actually declined over the period of investigation.

19 Secondly, Respondents claim that the U.S. hanger
20 business is cyclical and that Chinese hangers are limited
21 only to certain regions of the country. Both of these
22 arguments are wrong. As Mr. Roby testified, a cyclical
23 business is normally characterized by dramatic changes in
24 demand. Historically in the hanger business, demand has
25 been marked by only modest variations year to year. It is

1 perhaps for this reason that the players in the market have
2 remained the same over such a long period of time.

3 As you also heard today, the effects of Chinese
4 hangers are being felt throughout the United States, not
5 just on the east and west coasts. Even Respondents agree
6 that the range of distributors extends generally to 1,000
7 miles. If you take a map of the United States and draw a
8 line 1,000 miles from the west coast, 1,000 miles from the
9 east, 1,000 miles from the Gulf coast and then run a
10 diameter of 1,000 miles out of Chicago where Respondents
11 also acknowledge there are significant imports, what's left?
12 North Dakota maybe.

13 Third, the Respondents claim that customers prefer
14 Chinese hangers for quality reasons. The staff report
15 squarely addressed this point when it indicated that
16 purchasers are not willing to pay more for Chinese hangers.
17 In fact, just the opposite is true, as the pricing data
18 collected by the Commission demonstrates. Customers want
19 the lowest price hanger available, and that, as you have
20 heard repeatedly today from both sets of panels, is the
21 Chinese hanger. You also heard today that distributors
22 commingle their purchases of domestic and Chinese hangers
23 because it is unnecessary to segregate them for their
24 customers.

25 Finally, Madam Chairman, Respondents argue that

1 the economy and the increasing casual wear are a more
2 significant cause of harm to the domestic hanger industry
3 than low-priced imports from China. I believe that the
4 witnesses you heard this morning put these claims to rest.

5 Changes in economic conditions inevitably have an
6 impact on business, but the dramatic declines in performance
7 of the U.S. hanger industry cannot be explained by any
8 economic downturn. The disruptive effect of Chinese hangers
9 in the market is evident on the record of this
10 investigation. Just review the evidence of underselling, as
11 the Vice Chairman asked in her questions.

12 The distributors who testified this morning agreed
13 that declining prices cannot be attributed to economic
14 conditions. Their testimony about declining sales referred
15 to prices, not to volumes. They stated that quantities had
16 changed little, if at all. It was their revenue that had
17 been impacted by imports of Chinese hangers and by other
18 factors in the market which are not nearly as significant.

19 Madam Chairman, Mr. Malashevich has even briefer
20 remarks in our concluding segment.

21 MR. MALASHEVICH: Thank you, Mr. Waite. Madam
22 Chairman, members of the Commission, the essence of
23 Respondents' case rests on Dr. Shilling's regression
24 analysis. I have never known the Commission to render
25 either an affirmative or a negative determination based on a

1 regression analysis.

2 Mr. Kimball addressed a number of the
3 deficiencies. We will address more in response to
4 Commissioner Koplan's question, but I leave you with this
5 thought. Regression analysis is designed to take into
6 account many data points of observations. We have roughly a
7 five and a half year POI. For most of the variables, there
8 are no quarterly data. There are quarterly data for prices
9 and the volume of products sold, Products 1 through 6, and
10 that's it.

11 We will agree that through 1999, the domestic
12 industry was operating at a reasonable level of profit.
13 We're talking about the essence of market disruption, as Dr.
14 Shilling very eloquently defined it. Too much supply in
15 China coming and causing deflation in the United States over
16 an extremely short period of time after 1999.

17 When you look after 1999, you basically have 12
18 data points. You can't do a regression analysis that's
19 worth anything with only 12 data points. It's like relying
20 on a computer model to forecast the weather outside when you
21 can look out the window.

22 I suggest the Commission look out the window, look
23 at the data in the prehearing report for the period before
24 and after 1999 and draw your own conclusions, not rely on a
25 regression analysis.

1 Thank you.

2 CHAIRMAN OKUN: Thank you for those comments.

3 Mr. Loeb and Mr. Fazzino, are you ready to
4 proceed?

5 MR. LOEB: Madam Chairman, let me start. Hamilton
6 Loeb for the Chinese Respondents. I asked Mr. Reilly to
7 join me because Mr. Malashevich included some comments. I
8 think Mr. Reilly should respond to those.

9 What I think the Commission needs to do at this
10 stage starts with looking at the big picture in terms of
11 what a 421 proceeding should require and must require with
12 respect to the statutory standards. That goes both to the
13 reasonable or rather to the rapidly increasing requirement
14 of the statute, and it goes to the significant cause
15 requirement of the statute.

16 In both instances, as we see it, the Commission
17 has never before had a case with a record such as this one
18 with a market penetration level and a rate of penetration of
19 the kind that has occurred here, moderate in both respects,
20 and determined that it was appropriate to provide relief.
21 Looking at the 406 cases, the predecessor cases, we don't
22 see any that we think are comparable to the fact situation
23 here in which the Commission has not gone negative.

24 Let me turn to some of the core arguments that we
25 heard today because there are two points or three points I'd

1 like to quickly make, and then I'll turn it to Mr. Reilly
2 and Mr. Fazzone.

3 First to address a question that Commissioner
4 Hillman raised, what I call the rosy scenario that you heard
5 this morning, that is us dry cleaners do better when times
6 are bad and, anyway, business casual was a real 1990s thing,
7 and it's not a current item. I just have two words to
8 respond to that. *National Clothesline*.

9 Look at our brief, pages 27 and 28. We quote from
10 probably the leading publication we could find in the dry
11 cleaning industry in which it is said repeatedly things such
12 as the dry cleaning industry continues to lose volume. The
13 pool of garments available for dry cleaning has become
14 increasingly smaller over time.

15 These selected articles, and we only selected a
16 few in interest of brevity, refer repeatedly to the effects
17 of the recession, the shakeout, the decrease in the number
18 of plants, meaning dry cleaning plants operating, refer to
19 the U.S. economy continuing to stumble in the dark with the
20 result the dry cleaning industry continues to lose volume.

21 How the Petitioners can come in here and say that
22 there has not been a substantial economic effect on this
23 industry, that volumes have not been materially affected,
24 particularly in the most recent years which are most
25 important for a Section 421 case and that that has not had

1 an effect on the prices, that is not a significant
2 contributor to the pricing effects that have been
3 demonstrated in the record, is mysterious.

4 I would note as a side note that you heard the
5 Petitioners repeatedly refer to the period of investigation,
6 which goes from 1997 to 2002. Looking at the Commission's
7 cases under Section 406 at least, the data that's analyzed
8 normally is a three-year period. Data is collected for a
9 five-year period -- that's what the safeguards statute does
10 -- but the Commission's practice has been to look at three
11 years. If you look back at the cases, that's what gets
12 looked at, sometimes three years plus a fragment of the
13 current year.

14 If you take 1997 and 1998 out of the data, in 1997
15 and 1998 the industry was riding the last years of the great
16 economic upsurge of the 1990s, and, as we've suggested
17 consistently, 1999 should be the easy consensus choice for
18 the base year to compare later events.

19 The last point I'll make relates to the factor
20 that wasn't heard here, and that goes directly to the point
21 that both Chairman Okun and Commissioner Hillman raised with
22 respect to the underselling information in the record. What
23 you didn't hear about today in significant measure was the
24 regional domestic producers' effects.

25 Talk to anyone in the industry, and we will

1 encourage the staff to do that. Let me say parenthetically
2 it would have been our pleasure and preference to be able to
3 have distributors who take the view that we take of this
4 petition to join us in testifying. You know what the market
5 share of the domestics is this year. Unsurprisingly, the
6 distributors who think this petition is poorly grounded and
7 a bad idea are not willing to incur the retribution of the
8 domestics who, after all, still control the substantial
9 volume of business in this industry.

10 We have been authorized by several to speak for
11 them, to recount their stories. We have not attempted to do
12 that here. I don't want to do it indirectly, but I do hope
13 I can get the staff to talk directly with them, and you'll
14 hear.

15 What you'll hear is that in this industry in the
16 last 12 years, particularly in the regions where the effects
17 are concentrated, there are significant regional domestic
18 producers who have come in -- it doesn't take much to get
19 into this industry, as you know, in terms of capital
20 investment -- and started selling hangers domestically, the
21 result being that price hikes of the kind that the
22 Petitioners complained they tried in 2002 and it didn't
23 stick. They've tried price hikes regularly for the last 10
24 and 12 years, and they have never stuck, particularly in
25 years before the imports were present at all.

1 The fact is that there is intense competition for
2 the large domestics who are the Petitioners here and
3 particularly in regions like California from smaller
4 domestics who are very aggressive about pricing. You've
5 seen more detail about that in the Laidlaw brief. I think
6 people are reluctant to talk about it here, but I can
7 guarantee you that the people in the industry, the
8 distributors who suffer those effects, would be happy to
9 provide detail.

10 I think at this point the only other thing I'll
11 say, and then I'll turn it over to my colleagues, is on the
12 powder coating point. Two different Commissioners asked the
13 domestic producers why they hadn't converted to this
14 technology, and their responses were something like we
15 haven't seen the value, or it would be too expensive, or we
16 haven't seen the need for that.

17 I just think it's interesting that if the
18 Commission looks at our brief, page 44, footnote 105, you'll
19 see we reference responses from domestic producers who were
20 here today, and what they say in one place to the Commission
21 about their views and their intentions with respect to
22 powder coating technology is not necessarily the same thing
23 they say live and in person in this hearing room.

24 Let me ask. Do you want to go, Pat? Pat will go
25 next.

1 MR. FAZZONE: Thanks, Ham. Let me make just a
2 couple of comments and then turn it over to Mr. Reilly.

3 Counsel for the Petitioners has indicated their
4 view that Laidlaw Corporation and the other parties opposing
5 this petition have oversimplified or, sorry, tried to make
6 more complicated the situation than it really is. I guess
7 in our view, the Petitioners have tried to oversimplify what
8 is actually happening here in the industry.

9 We note that consistently they've said that
10 imports are the only cause of the material injury being
11 suffered by the domestic industry. This really just is not
12 consistent with the information data that's on the record at
13 this point or with the testimony today, the experience of
14 Laidlaw or even the modeling of Shilling & Associates.

15 As Mr. Reilly suggested, you know, there's a large
16 element, in our view, of poor market information or
17 incomplete market information in this industry. We note
18 that really as a practical matter, Laidlaw Corporation is
19 the only company in this industry that is able to service on
20 a commercial basis economically all of the major regions in
21 this country either by population or by geography.

22 None of the Petitioners have a plant in the
23 western region at all. To reach the west coast is a long
24 stretch, even to southern California from Texas, and even
25 the testimony today, in our view, suggests a lack of

1 information about west coast pricing and price conditions,
2 and yet 70 percent or thereabouts of all imports are coming
3 into that state and that part of the country.

4 I think Mr. Reilly was also right, and I don't
5 want to steal all his thunder, but when he said that the ITC
6 really must consider how important, relatively important,
7 imports were in the overall performance of the industry. We
8 have evidence on the record that there's been some price
9 differential in some products, in some situations, some
10 markets, some geographic markets and some segments, but
11 overall how important is it compared to the causes and the
12 factors that we think are driving the performance here?

13 In our view, Petitioners' testimony and their
14 papers thus far pretty much overlooks or ignores, just gives
15 short shrift to the economic factors, the discretionary
16 spending patterns, the consumption patterns and so forth,
17 and yet on the record, as has been introduced by two of the
18 parties in opposition to this petition, is a letter from the
19 head of a major group of distributors that really primarily
20 names as the culprit the economy, consumption patterns and
21 so forth in the present situations under which they're
22 operating.

23 We note today that we had several distributors,
24 and, as Hamilton Loeb said, we would have loved to have our
25 own purchasers here, but they're a bit apprehensive about

1 publicly opposing. We notice the distributors present here
2 today were from New York, which has traditionally been a
3 highly price competitive market, and also one from Texas,
4 where there have been a lot of imports from Mexico as well,
5 of course, more recently some from China.

6 When you look at it, we don't see a lot of
7 indication that there's really on the record thus far or in
8 the hearing today that this is really an overall, widespread
9 issue or problem; that is, imports causing material injury
10 to the domestic industry.

11 As Mr. Loeb also said, we've largely not gone into
12 some of the aggressive pricing practices to which Mr.
13 Livermore referred, but is documented and discussed in our
14 prehearing brief of companies both in Los Angeles and in
15 other parts of the country.

16 As Mr. Laidlaw said, you know, a lot of whether or
17 not relief would provide any benefit to the industry would
18 depend on how domestic producers priced post relief. Given
19 the past practices of domestic producers, we're not overly
20 sanguine that we would see any sort of difference in the
21 kind of aggressive market share behavior that we've seen
22 going back some years, particularly in the southern
23 California market.

24 Finally, the Petitioners don't really talk much
25 about what the implications are of the fact that a good

1 portion of the imports are actually accounted for by
2 producers themselves. We acknowledge that the majority of
3 those are actually Laidlaw Corporation, but we really
4 haven't heard an awful lot from the Petitioners on what the
5 significance of this is.

6 I think an excellent question arose from the
7 Commission Chairman particularly on what do we make of all
8 that in light of Section 421 language. Vice Chairman
9 Hillman was also very interested in that. We do want to
10 brief that I think more fully in the post-hearing brief,
11 but, in our view, to give you a little bit of an overview
12 and a one sentence in a lawyer's sense forecast on what it
13 means, the fact that you don't have anything specific in 421
14 in our view means that the Commission does have the
15 discretion in this case to interpret what domestic producers
16 on imports mean.

17 Commissioner Koplan, I agree that it is a
18 causation issue, but we also think it's an issue going to
19 what rapidly increasing imports mean, and in this case we
20 feel that the Commission should not consider those imports
21 as part of the injurious imports complained of here.
22 There's no evidence that suggests that you should.

23 Let me turn it over to Mr Reilly.

24 MR. REILLY: An economist forced to be briefer
25 than a lawyer. Just one very simple point, and that is that

1 the Petitioners have actually asked the Commission to
2 conclude that a very, very small volume of non-captive
3 imports, both absolutely and relative to the size of the
4 market, is doing an awful lot of work.

5 I think if you examine the role of those imports
6 in the market, the small volume of them relative to the
7 market and the fact that any competition between Chinese
8 products and domestic products is highly constrained, the
9 only conclusion that one can come to is that there is no
10 causation in this case.

11 Thank you.

12 CHAIRMAN OKUN: Very well done, Mr. Reilly. That
13 was a one sentence. There we go. One sentence. One
14 minute.

15 Post-hearing briefs, statements responsive to
16 questions and requests of the Commission and corrections to
17 the transcript must be filed by January 13, 2003. Final
18 comments on the market disruption are due January 23, 2003.

19 With that and seeing no other business before us,
20 this hearing is adjourned.

21 (Whereupon, at 5:08 p.m. the hearing in the above-
22 entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Steel Wire Garment Hangers From China
INVESTIGATION NO.: TA-421-2
HEARING DATE: January 9, 2003
LOCATION: Washington, D.C.
NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: January 9, 2003

SIGNED: LaShonne Robinson
Signature of the Contractor or the
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Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

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