

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
ARTISTS' CANVAS FROM CHINA) Investigation No.:
731-TA-1091 (Final)

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
) Investigation No.:
ARTISTS' CANVAS FROM CHINA) 731-TA-1091 (Final)

Tuesday,
March 28, 2006

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

The hearing commenced, pursuant to notice, at
9:30 a.m. before the Commissioners of the United States
International Trade Commission, the Honorable STEPHEN
KOPLAN, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

CHAIRMAN STEPHEN KOPLAN
VICE CHAIRMAN DEANNA TANNER OKUN
COMMISSIONER JENNIFER A. HILLMAN
COMMISSIONER CHARLOTTE R. LANE
COMMISSIONER DANIEL R. PEARSON
COMMISSIONER SHARA L. ARANOFF

APPEARANCES: (Cont'd.)

Staff:

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In Support of the Imposition of Antidumping Duties:

On behalf of Tara Materials, Inc.:

I. MICHAEL BENATOR, President and Chief Executive
Officer, Tara
JOHN BENATOR, Chairman, Tara
PETE DELIN, Vice President, Marketing, Tara
PAUL STRAQUADINE, Vice President, Sales, Tara
RON FREEMAN, Vice President, Manufacturing, Tara
DAVID TWITE, Executive Vice President, Tara
KURT RATHSLAG, Co-President, Duro Art Industries,
Inc.
BILL CICHERSKI, President, Asel Art Supply, Inc.

GEORGE W. THOMPSON, Esquire
LAURA MARTINO, Esquire
Neville Peterson, LLP
Washington, D.C.

APPEARANCES: (Cont'd.)

In Opposition to the Imposition of Antidumping Duties:

On behalf of Michaels Stores, Inc., Aaron Brothers, Inc., MacPhersons, ColArt Americas, Inc., Dick Blick Art Materials, Sbars, Inc., Hobby Lobby Stores, Inc., A.C. Moore, Jerry's Artarama, Jo-Ann's Stores, Inc., Wuxi Phoenix Artist Materials Co., Ltd. and Ningbo Conda Import & Export Co., Ltd.:

FRANK STAPLETON, President, MacPhersons
ALAN MAREK, Director of Importing, Michaels
Stores, Inc.
HARVEY KANTER, President, Aaron Brothers
JOHN DOWERS, Former President and Chief Executive
Officer and Current Board Member, Utrecht Art
Supplies
DANIEL W. KLETT, Principal, Capital Trade, Inc.

PHILIP S. GALLAS, Esquire
MARK L. LUDWIKOSKI, Esquire
Sonnenschein Nath & Rosenthal, LLP
Washington, D.C.

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P R O C E E D I N G S

(9:30 a.m.)

1
2
3 CHAIRMAN KOPLAN: Good morning. On behalf
4 of the United States International Trade Commission I
5 welcome you to this hearing on Investigation No.
6 731-TA-1091 (Final) involving Artists' Canvas From
7 China.

8 The purpose of this investigation is to
9 determine whether an industry in the United States is
10 materially injured or threatened with material injury
11 or the establishment of an industry in the United
12 States is materially retarded by reason of less than
13 fair value imports of subject merchandise.

14 Schedules setting forth the presentation of
15 this hearing, notice of investigation and transcript
16 order forms are available at the Secretary's desk.
17 All prepared testimony should be given to the
18 Secretary. Do not place testimony directly on the
19 public distribution table.

20 As all written material will be entered in
21 full into the record it need not be read to us at this
22 time. All witnesses must be sworn in by the Secretary
23 before presenting testimony. I understand the parties
24 are aware of the time allocations. Any questions
25 regarding the time allocations should be directed to

1 the Secretary.

2 Finally, if you will be submitting documents
3 that contain information you wish classified as
4 business confidential your requests should comply with
5 Commission Rule 201.6.

6 Mr. Secretary, are there any preliminary
7 matters?

8 MR. BISHOP: No, Mr. Chairman.

9 CHAIRMAN KOPLAN: Very well. Let us proceed
10 with the opening remarks.

11 MR. BISHOP: Opening remarks on behalf of
12 Petitioner will be by George Thompson, Neville
13 Peterson.

14 CHAIRMAN KOPLAN: Good morning, Mr.
15 Thompson.

16 MR. THOMPSON: Good morning, Mr. Chairman
17 and members of the Commission. I'm George Thompson
18 from the law firm Neville Peterson, LLP, appearing on
19 behalf of Petitioner, Tara Materials, Inc.

20 As you know, the antidumping statute directs
21 the Commission to evaluate a number of factors in
22 determining whether subject imports are a cause of
23 material injury to a domestic industry. These factors
24 include import volume and increases in that volume,
25 the market share held by imports and whether that

1 share has increased at the expense of the domestic
2 industry's share, whether imports undersell the
3 domestic like product and other price effects and
4 whether imports have had an adverse effect on the
5 domestic industry's financial condition.

6 Tara believes that the facts of record
7 demonstrate that each of these statutory factors has
8 been met and that the evidence is overwhelmingly in
9 support of finding that the domestic artists' canvas
10 industry is materially injured by reason of the
11 subject imports from China.

12 First, import volume has increased more than
13 ninefold over the period of investigation from 2002
14 through 2005. The increase in import value was even
15 greater.

16 Second, imports' share of the domestic
17 market expanded multiple times in the past four years.
18 Although the percentage increase is business
19 proprietary information, suffice it to say that
20 imports' presence in the United States market started
21 from next to nothing to the point where they have
22 taken significant market share.

23 This trend occurred across the entire
24 industry, but was particularly acute in the finished
25 artists' canvas sector where subject imports now

1 dominate. That increase came at the expense of the
2 domestic industry, which lost market share in almost
3 identical proportion to the imports' increase.

4 Next, imports have an extreme price
5 advantage, which has been the reason for their vast
6 increase in volume and market share. The Commission's
7 price data demonstrate that there has been massive,
8 consistent underselling of the domestic like product
9 by the subject imports. This underselling is found in
10 all channels of distribution that the Commission has
11 examined.

12 The purchasers' questionnaire responses
13 similarly attest to the imports' price advantage.
14 These data confirm what Tara has reported anecdotally;
15 that imports have a huge price advantage which has
16 resulted in lost sales and lost customers and lost
17 production to the domestic industry.

18 Additionally, the imports' price advantage
19 effectively prevents companies like Tara from
20 increasing prices to cover their own raw material cost
21 increases. This cost/price squeeze is illustrated in
22 the Commission's cost of goods sold data.

23 Tara faces the impossible situation of
24 either selling at a price that does not allow it to
25 recover its costs, much less make a profit, or raising

1 prices and losing market share.

2 The imports' price advantage and growth in
3 market share has had the predictable consequence. The
4 domestic industry's financial performance has suffered
5 greatly in the past four years. Moreover, Tara moved
6 a substantial portion of its production facilities to
7 Mexico in an attempt to lower its costs and thereby
8 narrow the imports' price advantage.

9 Faced with these compelling trends pointing
10 towards an affirmative determination, Respondents have
11 opted for a series of alternative causation theories.
12 They have made claims about Tara's motivation in
13 moving production capacity to Mexico, about Tara's
14 quality and about Tara's responsiveness to customers.

15 Tara's witnesses will address each of these
16 claims and demonstrate that they are mere smokescreens
17 to hide the price-based rationale for buying imported
18 Chinese canvas. In addition, we will hear from Mr.
19 Kurt Rathslag, co-president of Duro, another domestic
20 producer, who will confirm the injurious effects of
21 subject imports on his company. We also will hear
22 from Mr. Bill Cicherski, an independent retailer, who
23 will discuss both Tara's quality and responsiveness.

24 This testimony will buttress what is already
25 apparent from the administrative record in the case

1 thus far that subject imports are materially injuring
2 the U.S. artists' canvas industry.

3 Thank you.

4 CHAIRMAN KOPLAN: Thank you.

5 Mr. Secretary?

6 MR. BISHOP: Opening remarks on behalf of
7 Respondents will be by Philip Gallas, Sonnenschein
8 Nath & Rosenthal.

9 CHAIRMAN KOPLAN: Good morning. Your
10 microphone? Now it's on.

11 MR. GALLAS: Thank you.

12 CHAIRMAN KOPLAN: Sure.

13 MR. GALLAS: Good morning, Chairman Koplan
14 and members of the Commission. I am Phil Gallas, a
15 partner with Sonnenschein Nath & Rosenthal. I am here
16 today representing 10 of the largest importers and
17 retailers of artists' canvas in the United States and
18 two Chinese producers, all of whom oppose the
19 imposition of antidumping duties.

20 In order to master the challenges and
21 opportunities of the marketplace, retail merchants are
22 schooled in the four Ps -- product, price, promotion
23 and presentation. When you view the distributed
24 chart, the parties' respective views of the four Ps
25 sharply differ.

1 Tara's view of the market shaped their
2 strategic decisions and the way in which they
3 interacted with their customers, which include my
4 clients who can speak to how their views differ.

5 As for product, Tara views artists' canvas
6 as a commodity. It is a static view of the market.
7 Respondents' view of the product is as a lifestyle
8 consumable to spark creativity in customers.

9 As for price, Tara sees price as a zero sum
10 competition, while Respondents recognize the
11 importance of offering value, pricing accordingly
12 given the features and benefits of the product.

13 As for promotion, Tara relies on repetitive
14 seasonal allowances, which are strictly price
15 discounts, while Respondents create themed events to
16 generate interest and grow the market.

17 As for presentation, Tara views that as
18 irrelevant. They focus primarily on moving their
19 output to customers rather than generating sales.
20 Respondents, on the other hand, know that their
21 innovative presentation drives growth and inspires the
22 impulse buyer.

23 Please keep in mind this chart as you listen
24 to testimony of Petitioner and Respondents. I think
25 you will find that Respondents' view of the market is

1 the most accurate.

2 This case is also about Tara shifting its
3 U.S. production to Mexico. The timing of the shift
4 and the economics of producing in the United States or
5 Mexico should make the Commission look closely at
6 Tara's assertion that import competition from China
7 was the only reason for this shift.

8 Finally, this case is about the three Ws
9 relating to producers of artists' canvas other than
10 stretch canvas, in particular digital canvas -- who,
11 where and what.

12 Who are they? An identification of U.S.
13 producers that comprise the U.S. industry is normally
14 contained in the petition. However, in this
15 investigation this was not done, and Respondents had
16 to identify through our review of public information
17 other potential U.S. producers.

18 Where is the data? There remains
19 significant gaps in your record with regard to data
20 from U.S. producers. Your staff has had to scramble
21 to obtain information from a large number of U.S.
22 producers omitted from the petition.

23 What are the implications? These data gaps
24 affect the reliability of the data you have collected
25 from U.S. producers as representative of the condition

1 of the industry as a whole.

2 Tara's defense is an unsubstantiated
3 assertion that producers of digital print canvas are
4 not part of the U.S. industry, but your record
5 demonstrates otherwise.

6 Thank you.

7 CHAIRMAN KOPLAN: Thank you.

8 Mr. Secretary?

9 MR. BISHOP: Would those in support of the
10 imposition of antidumping duties please come forward
11 and be seated?

12 Mr. Chairman, all witnesses have been sworn.

13 (Witnesses sworn.)

14 CHAIRMAN KOPLAN: Thank you.

15 (Pause.)

16 CHAIRMAN KOPLAN: You may proceed, Mr.

17 Thompson.

18 MR. THOMPSON: Thank you, Mr. Chairman. I
19 am going to ask Tara's witnesses to begin their
20 presentation starting with Mr. Pete Delin.

21 MR. DELIN: Good morning and thank you for
22 the opportunity to present our case to you. We
23 appreciate it.

24 My name is Pete Delin. I am the vice
25 president of marketing for Tara Materials. I have

1 been with Tara for 10 years. I have been in the
2 industry for over 20 years.

3 Last April, when I first appeared before the
4 ITC, I mentioned that it seemed like every day there
5 was another news report about job losses to China, so
6 it was no surprise that on Friday before this meeting
7 the headline in the business section of *The Atlanta*
8 *Constitution* read "Georgia To Lose 1,300 Textile
9 Jobs."

10 This referred to a factory just north of
11 Tara. The reason was of course China, and the theme
12 of the article was the devastation that this plant
13 closing would cause to the community, to the economy
14 and the families. I kind of know how that feels, and
15 I think that it is realistic to believe that a similar
16 headline could someday refer to Tara if dumping of
17 artists' canvas is allowed to continue.

18 The Fredrix brand made by Tara Materials has
19 been in existence since 1868. It was a true power
20 brand, perhaps the world's number one brand of
21 artists' canvas and carried by virtually every dealer
22 in America. We are known most for quality, for
23 innovation, for the breadth of our product line and
24 for servicing the needs of the artist all the way from
25 the beginning to the professional.

1 Things began to change in 2001 when one big
2 box retailer decided to drop the Fredrix line to go to
3 China for its artists' canvas. This national chain
4 clearly stated at that time that it was about price.

5 The large wholesaler which distributed
6 Fredrix artists' canvas to this retailer at the time
7 followed suit and also began purchasing artists'
8 canvas in China. Then another and another and another
9 retailer joined that frenzy.

10 There was only one reason, and that reason
11 was price. It wasn't about quality. It wasn't about
12 service. It wasn't about the breadth of our line. It
13 was about one thing. Price. Gaining a competitive
14 edge through price. That price was the issue was
15 clearly stated by importers to Tara time and time
16 again. Sometimes it was documented in writing. The
17 floodgates were open, and now Tara is in a fight for
18 its survival.

19 The Respondents may lead you to believe that
20 the U.S. market was stagnant prior to the entry of
21 Chinese-made canvas and/or that Tara said that. That
22 is not the case. In fact, between 1990 and 2000 our
23 sales increased by over 60 percent, and the years
24 directly leading up to the entry of Chinese canvas
25 were some of the best growth and profit years in our

1 history.

2 At first importers focused on the best
3 selling sizes of prestretched canvas such as 1620s and
4 1824s. The quality of Chinese canvas was questionable
5 in the beginning, but retailers were initially
6 targeting the low end of the market so a compromise on
7 quality was acceptable. In addition, the price was
8 right and quality we knew would eventually begin to
9 improve.

10 The importation of cheap canvas from China
11 began to accelerate at alarming rates, and by 2003
12 every significant arts and crafts mega retailer and
13 distributor in the U.S. had a Chinese import program
14 for artists' canvas.

15 The China price, one of the scariest words
16 any U.S. manufacturer will ever hear, was music to the
17 ears of the retailer. Lower costs from China meant
18 substantially higher margins for them, and all it took
19 was an order for as little as \$25,000, just one
20 container full. Even if the price wasn't right, the
21 Chinese manufacturers seemed anxious to adjust the
22 price downward until it was.

23 Importers started importing in a limited
24 range of products, but they began to expand quickly
25 into more sizes and styles, including panels and pads

1 and then rolls. The agenda was clear. The pace of
2 the penetration was staggering, and there was no end
3 in sight. The China price was often below Tara's cost
4 for materials alone.

5 Fortunately for Tara, our innovative
6 printable canvas, a category that we pioneered,
7 remained relatively unscathed through 2004, but it
8 would have been dangerously naive for us to think that
9 it would not become a target as well, and we knew that
10 that would happen sooner than later.

11 In 2005, we have documented evidence that
12 the process had in fact begun. We estimate that over
13 \$300,000 to \$500,000 of printable canvas sales were
14 lost to Chinese products. That may not sound like
15 much, but it's a lot for a small, family-owned
16 company, and that's what some said about the finished
17 canvas category when that first big box retailer
18 referred to previously took that first bold step in
19 2001 to cut out Fredrix and source from China.

20 That was the first step that led to annual
21 sales losses of \$14 million to \$16 million at Tara
22 alone. That's a lot of business for any small
23 company, and our profits have plummeted as a result.

24 But, that's not even the scariest part.
25 Through smart management and innovation we could

1 restructure, we could re-engineer and we could
2 eventually replace that business and have replaced a
3 lot of it, but the China price was so low that it
4 became clear that the loss of business to date was
5 only the beginning.

6 There has been other fallout as well. There
7 were the erosive effects of downward pricing pressure.
8 Tara had to deal with cost increases in raw materials
9 and labor and face the choice of either increasing
10 prices and losing more customers or selling at prices
11 that would not cover our cost, so in spite of cost
12 reduction programs, our margins have also plummeted.

13 With a loss of business we were forced to
14 spread overhead over lower sales, and our profit
15 problems were compounded. We have now lost over 100
16 jobs in Lawrenceville, Georgia. We shut down our
17 stretcher strip plant in California, 40 more jobs
18 lost. We laid off an additional 15 workers just two
19 weeks ago with more to come in the near future. Our
20 canvas panel department, which is nearly fully
21 automated, stands over 50 percent idle.

22 We have made substantial investments in
23 automation, knowing full well that without duties to
24 offset the Chinese dumping even automation won't be
25 enough to get us near the China price.

1 Salaries are stagnant. Bonuses have been
2 slashed. It is becoming more and more difficult to
3 attract good people. Our bank rating has been
4 lowered, and Tara has to bear the brunt of the legal
5 fees on behalf of the domestic industry while those
6 opposing us have sales in the billions of dollars and
7 have the luxury of splitting that cost.

8 In spite of Tara's passionate desire to
9 survive and to flourish, in spite of our efforts to
10 reduce cost, to innovate, to consolidate and in spite
11 of the power of the Fredrix brand, our survival is now
12 in doubt. The survival of the industry is in doubt as
13 well because without antidumping duties to offset the
14 Chinese exporters' pricing the U.S. artists' canvas
15 industry may not survive.

16 Addressing these and other issues in more
17 detail is Ron Freeman.

18 MR. FREEMAN: Good morning, ladies and
19 gentlemen. My name is Ron Freeman. I'm vice
20 president of manufacturing for Tara Materials. I've
21 been employed by Tara since August of 2000.

22 The last three years at Tara have been a
23 time of significant change. The most crucial of these
24 changes was our first and then subsequent reduction in
25 workforce. This reduction in workforce occurred due

1 to the influx of low-priced Chinese canvas into the
2 U.S. market.

3 It's my intention to address the question of
4 why and when Tara moved stretched canvas product to
5 Mexico. Some history. On September 6, 1990, Tara
6 purchased Hy-Jo Picture Frames with a manufacturing
7 facility in Tiajuana, Mexico, and a small warehouse
8 and office facility in San Diego, California, with the
9 intention of integrating their ready-made wooden
10 picture frames into our product offering and
11 establishing a west coast distribution center.

12 At that time, canvas production represented
13 five percent of the Mexican factory, so production was
14 not the object of our acquisition. In an effort to
15 effectively compete with a west coast canvas
16 manufacturer, we began making Creative Edge artists'
17 canvas in our Mexican facility in 1997. This product
18 line was never made in the U.S. and was always labeled
19 and reported as Mexican production.

20 Creative Edge is an artists' canvas attached
21 to a wood frame utilizing a vinyl spline. Following
22 the developing of Creative Edge, we were approached by
23 Aaron Brothers and The Arts Store for private label
24 spline canvas.

25 Considering that Aaron Brothers'

1 distribution center was located in southern California
2 and that we did not produce spline canvas in Georgia,
3 production of these two product lines was always
4 labeled and reported as made in Mexico. These product
5 lines continued to grow until the loss of the Aaron
6 Brothers business to low-cost Chinese product in 2003.

7 In March of 2003, after several of our large
8 private label accounts began to purchase low-cost
9 product from China, I made a presentation to Tara's
10 senior management team outlining our difficulty
11 competing with low-priced Chinese product in the area
12 of assembled canvas products in the U.S.

13 We had explored multiple possibilities of
14 greater automation and cost reduction, but were still
15 unable to reduce costs to compete with the cheap
16 Chinese product. It was obvious that labor costs in
17 China are substantially lower than those in the
18 domestic industry.

19 Tara's labor costs range from eight to 34
20 percent of the total cost of artists' canvas products.
21 If you completely remove all labor costs you will
22 still find it possible to purchase a cheaper finished
23 product in China.

24 My opinion was that our only viable option
25 was to move a significant volume of our stretched

1 canvas operation in Georgia to our Mexico facility to
2 reduce labor costs as much as possible. This decision
3 was made with much trepidation and anxiety due to the
4 impact it was going to have on a significant number of
5 our associates and their families.

6 I am amazed that the Respondents have
7 characterized our decision to move the production
8 operations to Mexico as being unrelated to Chinese
9 competition because we made the decision before the
10 full onslaught of the imports hit or that we would
11 have made the move anyway for cost reasons.

12 I can tell you, because I was there, that
13 the decision to move was precisely because of China.
14 Even in 2003, the Chinese canvas was so cheap and so
15 many of our customers moved to buy it so quickly that
16 we knew we had to cut our costs as quickly as possible
17 to have any chance of competing. In late April 2003,
18 we began the process of moving 75 jobs from our
19 stretched canvas department from Georgia to Mexico.
20 This was completed in September 2003.

21 In November 2003 we made a determination
22 that we needed to close our Cottonwood, California,
23 stretcher strip facility due to continued growth of
24 low-cost Chinese product. The facility was closed
25 April 2004. All 40 associates lost their jobs. The

1 majority of the production was moved to Mexico with
2 the remainder being consolidated into the Georgia
3 operation.

4 The loss of assembled canvas products
5 continued through 2005 and into 2006. Due to the loss
6 of over 50 percent of our panel business in the second
7 half of 2005, we reduced 30 more associates over a 120
8 day period.

9 If this trend continues it will be necessary
10 to reduce another 20 associates over the next few
11 months. This may not seem to be earth-shattering
12 numbers from a global view, but it is devastating to
13 the loyal associates that are affected. Although I
14 believe we have dedicated, loyal employees, each of
15 these reductions has impacted morale.

16 Tara has invested over \$5 million in new
17 machinery, equipment and technology over the past
18 three years in an effort to improve productivity and
19 delivery. Even with this level of investment, we find
20 many times the comparable Chinese product is being
21 sold at or below our material cost.

22 Unless antidumping duties are imposed I am
23 convinced the loss of business will continue at an
24 escalated pace. All we ask is the opportunity to
25 compete fairly without the price handicap that huge

1 dumping margins give the Chinese.

2 Thank you.

3 MR. THOMPSON: Paul Straquadine?

4 MR. STRAQUADINE: Good morning. My name is
5 Paul Straquadine. I've been employed with Tara
6 Materials for five years. I am the vice president of
7 sales, the sales guy.

8 My previous experience includes seven years
9 of art materials retailing on the west coast. I paint
10 occasionally as a hobby. My wife paints
11 professionally.

12 My goal is to share some information with
13 you about lost business, pricing and pricing issues
14 and the scope of this petition.

15 A year ago I started my testimony by saying
16 hello to some of my biggest customers that were seated
17 behind me in this very room. I say that again. Of
18 the 12 Respondents, two being Chinese manufacturers,
19 of the 10 remaining eight of them are members or
20 former members of Tara's elite top 10 customer list.

21 The amazing thing about this coalition
22 opposing this petition is that they are normally
23 staunch competitors. They fight tooth and nail for
24 customers, for sales and for market share, and that's
25 on a day-in and day-out basis.

1 They come together in this case to try and
2 suppress the domestic artists' canvas industry because
3 they got used to getting something for nearly nothing.
4 It's pretty simple when you come down to it
5 mathematically. Let's say a piece of canvas was
6 purchased by a U.S. distributor for \$4 a piece. They
7 then resold it for \$5, maybe \$6, and the retailer sold
8 it for \$9, maybe \$10 to the consumer.

9 Well, suddenly that same piece of canvas is
10 available for \$1. That's then resold for \$2 to the
11 retailer, in essence doubling the distributor's gross
12 profit margin. The retailer then sells it for \$6, in
13 essence doubling their gross profit margin, and it
14 looks like everybody is making a lot more money.

15 Who cares if it took unfair trade to get
16 these prices, and so what if it costs a few hundred
17 U.S. jobs? Well, we care.

18 You add to that that some importers then
19 employ an innovative, advanced and strategic marketing
20 program where they take the Chinese product, the
21 Chinese canvas, and they mark the retail suggested
22 price, the suggested retail price, 10 to 25 percent
23 higher than U.S. domestic artists' canvas. They can
24 then offer tremendous discounts to the retailer,
25 offers of 70 percent or more off of suggested list

1 price.

2 The retailer, with this higher inflated
3 suggested list, can then offer discounts of 40 or 50
4 percent off every day. Every day Chinese canvas is in
5 sale in stores. That is the marketing strategy.

6 Everyone will report that they're selling
7 canvas at better profit margins, and their
8 shareholders are happy about that. How do they make
9 more money? It's simple. The canvas is inexpensive.
10 They can afford to promote it more often. They can
11 offer every day sale pricing.

12 Instead of stores carrying 100 or 200 pieces
13 of canvas, they can suddenly stack it high and watch
14 it fly. Large stacks throughout the store and always
15 sale pricing, sale pricing that helps motivate sales.

16 The Commerce Department announced just last
17 week that dumping margins ranged from 77 percent to
18 264 percent. When you can buy product from China for
19 less than half of what it costs a domestic or U.S.
20 producer to manufacture it, something is wrong.

21 We're really just in it to survive. We
22 don't wish ill on anyone, certainly not Chinese people
23 or Chinese manufacturers or our top 10 customers.
24 We're only asking for an opportunity to compete, win
25 or lose, without unfair trade practices.

1 As we have argued, we believe that all
2 artists' canvas constitutes one like product under the
3 Commission's criteria. That does not mean that
4 artists' canvas is a commodity. It means that it all
5 falls under one like product.

6 Scope. Artists' canvas is really a unique
7 product. Blank canvas represents unknown and untapped
8 creativity. Regardless of how it gets finished, it's
9 the absolute building block to graphic expression.

10 Physically artists' canvas has a rather
11 narrow definition and application spectrum. In
12 essence, it is a woven fabric primed or gessoed to
13 accept paints and/or inks. You can't bake a cake with
14 it, and you can't build a house with it. It gets
15 painted or printed on and transformed from artists'
16 canvas into simply art.

17 While originally artists' canvas was mostly
18 woven linen, today it can range from cotton to
19 polyesters to muslins to jute. The unique
20 modification to these fabrics lies in the artists'
21 coating or the gesso. Once the gesso is applied, that
22 fabric will now find its final home in some capacity
23 as artists' canvas.

24 No matter what you put on it, it turns into
25 art. You can apply oil paints, acrylic paints, alcid

1 paints, tempera paints, watercolor paints, collage,
2 scrapbooking or inks and pigments that are used in
3 graphic reproduction. The common thread to each of
4 these, and they are all quite different disciplines,
5 is the substrate, the artists' canvas in various
6 styles, forms, fabrics and formats.

7 Bulk artists' canvas can be converted into
8 multiple shapes, styles and physical applications.
9 They are:

10 Stretched applications. This represents
11 artists' coated fabric wrapped over wooden stretcher
12 bars. It is by far and away the most common and best
13 selling category.

14 Canvas panels. This is artists' canvas that
15 is adhered to a chipboard or recycled cardboard panel,
16 and it's most commonly considered a student grade.

17 Archival boards. This is artists' canvas
18 that's adhered to non-warping archival hardboard, more
19 of a professional grade.

20 Canvas pads. These are sheets of artists'
21 canvas bound into a tablet similar to writing pads,
22 and again it's commonly used by students.

23 Canvas rolls. These are sold in a multiple
24 of styles, widths and lengths, and it can be later
25 stretched by the artist onto stretcher bars or mounted

1 onto hardboards.

2 And finally, print canvas. This is artists'
3 canvas that is intended for art reproduction. It's
4 critical to recognize that in order to manufacture
5 print canvas the exact same fabric, gesso and
6 manufacturing process is employed.

7 Artists or publishers who wish to reproduce
8 their art in the most authentic facsimile want to use
9 print canvas because it looks the most authentic.
10 While some print canvas receives an inkjet receptive
11 topcoat, this final addition falls squarely on top of
12 a traditionally manufactured artists' canvas.

13 Print canvas is really the final frontier in
14 artists' canvas. While Chinese imports are only
15 starting to filter into this market, the signs are
16 abundantly clear that this too will suffer the
17 onslaught. More and more OEM accounts and national
18 distributors are testing and purchasing the dumped
19 product. Price will devour this arena in less than 18
20 months.

21 Tara replaced major losses of stretched
22 artists' canvas with our print canvas over the past
23 seven years. We pioneered a new growth market and now
24 stand to lose it all at the hands of the world's best
25 copy-catters. We have invested and worked hard to

1 grow this business. Without it we probably wouldn't
2 have made it this far. We would have been another
3 casualty industry at the expense of unfair trade
4 activity.

5 The threat of dumping in this industry is
6 abundantly real and is happening as we speak. The
7 Respondents have accused us of failing to report
8 manufacturers of artists' canvas from this fast-
9 growing category, companies who simply repackage or
10 apply a clear inkjet coating to previously
11 manufactured artists' canvas.

12 We believe they do not qualify as artists'
13 canvas manufacturers. This would clearly be double
14 counting the same square meter of artists' canvas.
15 Some of these mere finishers simply resell the canvas
16 under their own name with little or no value added.

17 The Respondents in their public brief
18 repeatedly refer to Tara and the domestic industry's
19 inability to provide product at the price/value
20 combination that allows them to execute their retail
21 strategies. What they mean by price/value combination
22 is product, artists' canvas, at cheaper prices.

23 Tara's inability is not the result of
24 unwillingness to provide product at these prices, but
25 it's our recognition of the economic impossibility of

1 doing so. This petition was initiated by this
2 realization that it is not possible for a company,
3 regardless of the prevailing wage rate in their
4 economy, to produce product at these prices. It's
5 dumping.

6 At the preliminary conference our primary
7 quality detractor was Utrecht Art stores. They claim
8 that their 25-year business venture with Tara was rife
9 with quality issues. Utrecht was visited five times
10 by Tara employees over the final six months of the
11 sales process. This included our quality improvement
12 manager, several trips by our director of national
13 accounts, our president and CEO and myself. Efforts
14 were sincerely made to save this longstanding
15 relationship.

16 The majority of their complaints were
17 isolated primarily to stretched linen. When Utrecht
18 ended their supply relationship with Tara, they went
19 from 95 percent domestic artists' canvas supply to
20 less than 30 percent domestic. Prior to losing the
21 business several price reductions and credits were
22 extended to Utrecht.

23 What they didn't mention is that Tara
24 replaced or refunded every piece of canvas that
25 Utrecht ever questioned. There's no doubt that

1 Utrecht's quality standards seemed to have increased
2 unreasonably.

3 Conversely, Utrecht was not willing to
4 sacrifice quality with nearly empty shelves while they
5 waited several months for their Chinese supplier to
6 complete their orders. Quality and delivery were not
7 major factors until something new came into play, and
8 that was price. The primary reason that a 25-year
9 long business relationship ended was pricing.

10 Some of the Respondents will also say that
11 Tara is not innovative. Tara continues to push the
12 market with new products and innovations. Fredrix's
13 watercolor canvas received the Product of the Year
14 award from CNA magazine last year. Fredrix's
15 watercolor canvas is so innovative that it has a
16 patent pending.

17 Fredrix's archival canvas boards are the
18 first archival canvas board offering available to
19 artists in cotton, acrylic primed Belgian linen and
20 oil primed Belgian linen.

21 Fredrix was the first U.S. manufacturer to
22 offer a wide variety of textures on the market.
23 Fredrix was the first U.S. manufacturer to offer a
24 tongue-and-groove stretcher bar. Fredrix was the
25 first canvas manufacturer to combine polyester and

1 cotton fibers in our poly-flax artists' canvas.

2 Fredrix is the first canvas manufacturer to
3 offer a brand new product soon to be available called
4 So-Paintable. It's the arts and crafts industry's
5 first indoor/outdoor, sewable, paintable, printable
6 fabric. Sorry. I'm a sales guy.

7 Where are the innovations from China? They
8 offer a few sizes of stretched canvas that we do not.
9 A few additional sizes is far from markedly
10 innovative. They have copied our labels. They have
11 copied our product offering.

12 I submit a sample of the Fredrix canvas pad
13 known to the industry for over 20 years and a
14 competitive similar, similar label. Knock-offs were
15 just the beginning. They have also copied our product
16 offering, our marketing and our quality.

17 Tara had an integral position in the
18 development of print canvas and maintained a dominant
19 role in supply and advancement in this area. Tara has
20 been around since 1966, and Fredrix's artists' canvas
21 has been manufactured since 1868. You don't make it
22 that long by not being innovative and good business
23 people. You survive by making excellent products and
24 maintaining good business relationships.

25 So what could shake up an industry like

1 ours? One thing. Price. Obscene prices. Prices
2 that can end 30-year relationships. It's not just a
3 nickel and it's not just a quarter. It's prices of 20
4 to 70 percent lower.

5 In the purchasers' questionnaire, 17 of 20
6 Respondents said that lower prices were available from
7 China, and 22 out of 27 said that price was very
8 important in their purchasing decision.

9 Consider this for a moment. Nearly every
10 member of the Respondents used to purchase their own
11 canvas from Tara. Nine out of 10 of the domestic
12 companies -- Michael's Arts & Crafts, Hobby Lobby,
13 A.C. Moore, Sbars, Windsor & Newton, Aaron Brothers,
14 Jerry's Artarama, Utrecht and Dick Blick. Every one
15 of these accounts purchased private label their house
16 brand artists' canvas from Tara prior to Chinese
17 dumping.

18 What changed? Was it quality? Was it terms
19 of sale? Was it service? No. In every case when
20 we've lost business to Chinese canvas it's been based
21 on one thing, and that's price. With each loss of
22 business, Tara has quoted lower prices in hopes of
23 saving the business, offers of substantially lower
24 prices up to 20 percent that in every case were
25 described as not enough. The difference was just too

1 dramatic.

2 On August 27, 2003, Tara met face-to-face
3 with Aaron Brothers' Vice President of Purchasing,
4 Catherine Henkins. Tara had been asked to requote
5 their private label due to their recent quotes and
6 samples from China. In fact, Catherine asked Tara to
7 test the Chinese canvas to compare it to what she had
8 been purchasing.

9 Although we demonstrated a better quality
10 was offered by her existing supplier and offered lower
11 prices, we were told that that price roll-back was not
12 enough. The price difference was too dramatic. She
13 explained that that pricing from China was still much
14 lower than U.S. supplies.

15 I have been told by buyer after buyer that
16 prices from China were just too attractive. One buyer
17 claimed that he was able to promote and sell his brand
18 from China at a retail price that was 15 percent lower
19 than he had paid for it previously from a domestic
20 supplier, so he was now retailing it cheaper than he
21 had ever paid for it previously.

22 When I asked him the question how did he do
23 this, he said simple, dude. It's called dumping.
24 I've submitted samples in my preliminary hearing
25 brief, and this continues to take place and can be

1 supported as requested.

2 Think about it. Raw materials -- canvas,
3 wood, chemicals and package -- cost more than what the
4 finished product can be purchased for from China. Raw
5 materials alone cost more than what it's being sold
6 for. This does nothing to take into account labor,
7 overhead or a fair profit.

8 Who could blame the Respondents for buying
9 product at these levels? In an extremely competitive
10 industry, all it takes is one big supplier, one big
11 box or one big supplier, to offer prices that are far
12 below anyone else to upset the markets.

13 This is a sale that took place last month in
14 Dick Blick stores offering 70 percent off retail
15 prices to consumers for artists' canvas when they
16 purchased a mere 20 pieces or more. For 10 pieces or
17 more they can get 60 percent off retail.

18 These are discounts that are available to
19 the public. Any one of these buyers would have a lot
20 of explaining to do to their bosses, shareholders and
21 customers if they don't have a way to combat pricing
22 like that. One customer walks in with a competitor's
23 ad and says how can they sell it this cheap, and
24 suddenly people are slashing prices, so it is
25 understandable to some extent.

1 Domestic manufacturers all pay taxes. We
2 abide by workers' compensation laws. We provide
3 benefits and maintain OSHA approved safe work
4 environments. We receive no free raw materials or
5 unfair trade incentives. While we would never try to
6 impose these things on foreign producers, we can force
7 them to comply with fair trade laws and not dump
8 product in our nation.

9 The consequence of this behavior is that the
10 domestic industry producing artists' canvas has been
11 materially injured by the Chinese imports and is
12 threatened with such injury in the future.

13 Thank you. I'd like to introduce Michael
14 Benator, the president and CEO of our company.

15 MR. THOMPSON: Actually, the next witness is
16 Mr. Kurt Rathslag from Duro Industries.

17 MR. RATHSLAG: Good morning. My name is
18 Kurt Rathslag. I am the co-president of Duro Art
19 Industries. We are manufacturers of the Lions brand
20 of artists' canvas. We manufacture in our production
21 facilities in the Chicago area.

22 I come before you this morning to lend
23 support --

24 CHAIRMAN KOPLAN: Could you just move that
25 microphone closer to you?

1 MR. RATHSLAG: I come before you this
2 morning to lend support to the petition filed on
3 behalf of the U.S. canvas manufacturing industry.

4 The last three years, my company has faced
5 incredible price competition from Chinese
6 manufacturers. We have lost customers, both large and
7 small, to the Chinese suppliers. These customers were
8 happy with the quality, delivery and variety of our
9 products, but they switched to the Chinese imports
10 because costs were significantly lower than ours. It
11 was nearly impossible to compete. Our canvas business
12 was being eaten away with every customer that I lost.

13 The Chinese imports have frozen our ability
14 to compete in the canvas market. As a result, we
15 stopped developing new products and concentrated only
16 on survival. Duro Art is a very lean manufacturing
17 company, but no amount of cost cutting could lower my
18 costs to the levels of what the Chinese manufacturers
19 were willing to sell my customers.

20 If the Chinese dumping is allowed to
21 continue, the negative effects to my company and my
22 employees would be significant. I ask that you rule
23 in favor of the petition.

24 Thank you very much for your kind attention.
25 I turn it over to Bill Cicherski now.

1 MR. CICHERSKI: Good morning. As a matter
2 of record, one of the first things I'd like to do is
3 to identify Asel Art is spelled A-S-E-L and not
4 A-Z-E-L.

5 I represent a company that's been in
6 business for 55 years. I have owned the business
7 since 1973, and we currently have 10 stores in the
8 Texas area. Nine of those stores as strictly art
9 materials stores, and one is a university book store.

10 The employees of our company are also the
11 shareholders of our company through an ESOP plan that
12 we've had established for over 20 years.

13 Consequently, our management has been with us for
14 quite a while. Currently of our 16 active managers,
15 they have an employment history at Asel that averages
16 24 years so we have a dedicated group of core
17 employees in our business.

18 These 55 years that we have been in business
19 we also have been buying from Tara/Fredrix, a very
20 good resource and continues to be our principal
21 resource in the canvas area.

22 Why do we do business with Tara? It's a
23 long-established company with a good history. Asel,
24 being 55 years old, has been doing business with Tara
25 as a means of maintaining a strong relationship with

1 all of our vendors. It has the most complete line
2 available in the canvas area. Its experience
3 translates to new ideas, new products.

4 We constantly feel that their knowledge of
5 the industry lends to this ability to create and not
6 have me too and knock-off products. They have a
7 timeliness in their delivery. Yes, we've had
8 experiences with quality control and delivery, but I
9 would suggest that any company that's been in business
10 for any period of time always will have some issues to
11 distort their delivery or distort their quality of
12 whatever their product might be.

13 In any event, what we have found is that
14 Tara responds to what the issues might be, whether it
15 be quality or whether it be delivery or whatever the
16 issue is. We know who the management of Tara is. We
17 can pick up the phone and talk to them and get the
18 matter resolved usually satisfactory to our own
19 requirements.

20 Tara also offers us promotions that we are
21 able to expect each year so that we can pass on
22 whatever savings that we gather from Tara to our
23 consumer.

24 What we feel is that the canvas meets the
25 various demands for the general public. We too buy

1 some imported canvas, but that usually is because the
2 teacher prescribes that particular product, and,
3 wanting to satisfy all of our customers, we buy what
4 products are necessary to satisfy our customers, as
5 well as certain school bids may require products by a
6 brand identification, which we try to go ahead and
7 promote and bid on those particular products, so yes,
8 we do buy a small amount of imported canvas.

9 Why do we not buy canvas from China? We
10 find that it's usually not a complete line. The
11 representatives that come into our store to sell that
12 particular product line usually dwell on one area, and
13 that's price. They don't address the area of quality.
14 They don't address the area of timeliness. They don't
15 address the area of the completeness of the line.

16 They don't address the area of the poor
17 coding on the canvas or the poor wood stretcher strips
18 on the canvas or even the stapling, the manner that
19 the canvas is adhered to the wood. They don't address
20 the timeliness of their deliveries.

21 There are no promotions that we can have
22 that we would be able to pass onto our customers, plus
23 we don't know who the manufacturers area. We're
24 dealing with domestic representatives who don't have
25 control of production, who don't have control of any

1 of these other ideas that we have just talked about.

2 Asel Art Supply in the Dallas area alone has
3 66 competitors, mainly those represented by the people
4 today in the Respondents' area. They're good
5 competitors. We feel that they offer various products
6 in the craft and hobby and art industry, but we feel
7 that our own particular business fits a different
8 niche, and that niche would be artists.

9 We always subscribe to the fact that we want
10 Asel, who is a good company, we want Asel to be a
11 better company, and we don't feel that we can be a
12 better company by selling an inferior product.

13 That pretty well concludes my comments on
14 the whole area. I just simply wanted to identify one
15 lasting memory. We want a company to survive here.
16 We don't want to see this company pass away like a lot
17 of domestic companies have because of competition.

18 We don't want to see a company that only
19 provides us with me toos and knock-offs. We want to
20 see a company that will continue to present to the
21 industry a good quality product that most people in
22 the arts area want.

23 Thank you very much.

24 MR. I. BENATOR: Good morning. My name is
25 Michael Benator, and I am CEO and co-owner of Tara

1 Materials. Thank you for this opportunity to hear our
2 final remarks regarding our antidumping petition.

3 I too would like to thank the entire
4 International Trade Commission staff in researching
5 and pursuing all of the complex matters that apply to
6 this petition.

7 The U.S. artists' canvas industry is not a
8 large industry. Tara Materials is the market leader.
9 Our sales of artists' canvas to U.S. customers at its
10 highest point was less than \$50 million, but, as with
11 many other dumping Petitioners, this issue is very
12 important to all U.S. manufacturers and to all of our
13 valued U.S. employees.

14 Despite the small size of our industry, we
15 greatly appreciate the attention and effort that each
16 of your investigators, auditors and legal experts has
17 spent to fully understand this antidumping petition.

18 Many of the Respondents will argue today
19 that the artists' canvas imports from the People's
20 Republic of China have filled a void in the U.S.
21 artists' canvas industry due to capacity limitations,
22 quality problems and lack of product innovation; that
23 the U.S. artists' canvas manufacturers are as strong
24 and healthy as they were since China began their
25 sizeable exports into the United States in 2002. This

1 is far from the truth.

2 The amount of U.S. artists' canvas being
3 sold in 2005 by major retailers and distributors has
4 been drastically reduced versus 2002. I believe this
5 should be firmly supported by the U.S. producer
6 questionnaires submitted to you.

7 In 2001, I believe there were eight U.S.
8 manufacturers of assembled artists' canvas. Today, I
9 estimate that there are only five and that all of us
10 are struggling with reduced margins and reduced bottom
11 line profits.

12 As to the producers of bulk artists' canvas,
13 I am aware of only five, the same number since 2001,
14 and, yes, some are stronger today than in 2001 due to
15 the growth of the print canvas digital reproduction
16 market, but if this petition is not awarded they too
17 will be seriously injured.

18 I can only verify that in visiting many
19 retail art stores and major internet mail order
20 businesses the amount of shelf space for U.S. artists'
21 canvas products has been drastically replaced with
22 Chinese artists' canvas. There is no mention of
23 superior quality or new product innovation. The only
24 lure is the stacks of artists' canvas and the heavy
25 advertising of low, low prices.

1 As to the argument that the U.S. artists'
2 canvas manufacturers do not have the capacity to meet
3 the needs of the growing U.S. market, I believe that
4 these eight U.S. manufacturers were fully servicing
5 the industry prior to the entry of Chinese canvas, and
6 I believe most of these manufacturers were producing
7 artists' canvas on only one daytime shift.

8 If there were significant increased demand,
9 most of us would gladly expand to a second shift. In
10 fact, Tara Materials had begun a full second shift in
11 our stretching department and our woodworking
12 department in 2002, only to have to shut these
13 departments down in April 2003 due to the loss of
14 business to China.

15 On-time delivery has been a key strategic
16 goal for Tara for many years. Although our service
17 rates have not always been ideal, like many
18 manufacturers it was due to unexpected demand and a
19 narrow time period that takes additional time for any
20 manufacturer to gear up and respond.

21 We have charts and records that can support
22 exactly why service levels dropped and how quickly it
23 took us to correct the situation. In addition, at no
24 time did it take us more than 30 days to respond,
25 which is less than half the normal turnaround time for

1 artists' canvas orders from China.

2 Today, artists' canvas orders at Tara are
3 shipping in less than five business days at an on-time
4 shipping rate of 97 percent or better where at Tara an
5 on-time order means that each and every item on the
6 order must ship complete and within the customer's
7 expected shipping date. Even if an order has 200
8 items, all 200 items must ship complete and by its due
9 date to be counted as an on-time order.

10 As to the argument that the quality of U.S.
11 artists' canvas has declined and forced U.S. customers
12 to search elsewhere for better quality, we have
13 addressed all of these issues, responsibly corrected
14 the manufacturing processes and issued credits for any
15 and all claims. The quality issue is merely a red
16 herring raised by the Respondents, but let me describe
17 our quality assurance process to you.

18 With any complaint we investigate we issue
19 credit, we fully replace defective merchandise, we
20 involve our technical director with customers or the
21 artists directly. We send our sales representative or
22 quality manager to personally inspect defective
23 products, and we do whatever it takes to resolve the
24 problem.

25 Nearly every retailer I visit has had issues

1 with a bad canvas or two. It is Chinese brand just as
2 frequently as U.S. domestic brand. Here is what I can
3 categorically state: That the Respondents' claims are
4 rhetoric and not reality. Since 2004, as it had been
5 for many years, the total credits issued to customers
6 for defective products total less than one-quarter of
7 one percent.

8 This is all a smokescreen to divert the
9 attention away from the real reason most importers
10 have switched, the unfair low prices. If their prices
11 were close to U.S. prices, none of these reasons would
12 be valid, and we would not be here today.

13 As reported at the preliminary conference in
14 April 2005, the U.S. import data clearly demonstrated
15 that the import volume of artists' canvas from the
16 People's Republic of China has increased two and a
17 half times from 2002 to 2003 and then triple this to
18 over seven and a half times from 2002 to 2004. Today,
19 the import volume for 2005 has increased further to
20 almost two million square meters of volume, over nine
21 and a half times greater than 2002.

22 We are aware that some of the increased
23 volume in 2005 was due to importers loading up on the
24 Chinese artists' canvas to avoid the expected tariff
25 decision this past November. Tara could have filed a

1 critical circumstance request to roll back the tariff
2 for 90 days, but this would have further alienated
3 several of our key customers and disrupted the U.S.
4 artists' canvas market.

5 As we have always stated, we are in the
6 business for the long term, and we are willing to
7 suffer additional short-term injury in anticipation of
8 the long-term favorable petition decision and
9 hopefully the understanding and support of these key
10 customers.

11 As to the specific impact of Tara, imports
12 of artists' canvas from China began to affect Tara in
13 2002 with the most significant losses in 2003 and
14 2004. Assembled canvas losses continued in 2005 while
15 bulk canvas grew in 2005, thankfully, due to a
16 favorable increase of business both in the United
17 States and internationally for our digital print
18 canvas products.

19 However, this business is also being
20 seriously threatened by artists' canvas imports from
21 China, and, like the established fine artist canvas
22 business, it will not take much time for the Chinese
23 to continue to enter this market.

24 The activity and the signs that we are
25 seeing in late 2005 and early 2006 for our print

1 canvas products looks very similar to the initial
2 activity and signs that we experienced in our fine
3 artists' canvas business in 2002. This is a very real
4 and imminent threat to the bulk print canvas business
5 for U.S. artists' canvas manufacturers.

6 Since 2002, Tara has suffered greatly, like
7 I believe other U.S. artists' canvas producers have.
8 In addition to significant sales volume losses, we
9 have experienced significant reductions in our gross
10 profit margins. We have had to shut down our
11 precision woodworking operation in northern
12 California.

13 In 2004, Tara Materials lost money for the
14 first time in Tara's 40 year history. The most
15 difficult result for Tara was our first layoffs ever
16 in Tara's history in 2003, and we have had to continue
17 to downsize in 2004, 2005 and most recently two weeks
18 ago.

19 In 2002, Tara had its highest U.S.
20 employment level of 470 employees. Today at Tara we
21 are down to 292 employees, a total downsizing of
22 approximately 40 percent of our U.S. workforce.

23 The Fredrix artists' canvas company started
24 in 1868 as the first American canvas producer in the
25 United States. We are trying to protect an American

1 artists' canvas industry that is over 138 years old, a
2 company that famous American artists such as Norman
3 Rockwell, Peter Max, Wieland and Thomas Kinkade have
4 painted on, and we are trying to protect the entire
5 U.S. artists' canvas industry where we have all
6 suffered.

7 We are confident that the data and
8 information that we have submitted and that you have
9 verified through inspections at our facilities in
10 Lawrenceville, Georgia; San Diego, California; and
11 Tiajuana, Mexico, will clearly demonstrate that Tara
12 Materials manufactures its products to the highest
13 standards, to the quality standards that meets or
14 exceeds the needs of the marketplace;

15 That artists' canvas imports from China have
16 caused significant injury to the U.S. artists' canvas
17 industry; that the unfair pricing of artists' canvas
18 into the United States has already caused significant
19 loss of jobs, reduced our sales, reduced shelf space,
20 reduced profit margins and financial losses never
21 before experienced.

22 We do not believe it will be in the best
23 interest of the U.S. art materials industry, not just
24 the artists' canvas industry, nor to all of our
25 experienced, hardworking associates and our families

1 to allow this to occur.

2 We believe the facts clearly demonstrate
3 that U.S. imports of artists' canvas from China have
4 grown dramatically in the last three years mainly
5 because of their unfair, low, low prices, not their
6 service, not their quality and not their product
7 innovations.

8 Thank you again for your time and interest.

9 MR. THOMPSON: Mr. Chairman, that concludes
10 our opening remarks. We would like to reserve our
11 remaining time.

12 CHAIRMAN KOPLAN: Thank you. I want to
13 thank all of the witnesses for their direct
14 presentation. It's very helpful.

15 Let me say to you before we begin the
16 questioning, because you're sitting at two tables,
17 that each time you respond to a question, if you could
18 reidentify yourself for the record, it would be
19 helpful for the reporter. With that, we'll begin the
20 questioning with Commissioner Aranoff.

21 COMMISSIONER ARANOFF: Thank you, Mr.
22 Chairman. I want to welcome all of the witnesses, and
23 thank you very much for taking the time to come and be
24 with us today to answer our questions about your
25 industry.

1 I'll start with some fairly basic questions,
2 and I'm not sure exactly --

3 CHAIRMAN KOPLAN: Excuse me. I hate to
4 interrupt. Mr. Freeman, if you could move your
5 nameplate in back of the light so that I can keep
6 track of time. Thank you.

7 COMMISSIONER ARANOFF: I'll start with a
8 basic question, and I'm not quite sure which of you
9 wants to address it, but can you describe to me, in
10 terms of the retail customer base for artists' canvas,
11 about how much of the market do you think is
12 professional artists, and how much do you think is
13 hobbyists?

14 MR. STRAQUADINE: Paul Straquadine. That is
15 a hotly debated question within our management team.
16 I think we would agree to 25 percent being
17 professional. We would define that as people who
18 acquire 50 percent or more of their income from
19 selling their artwork, and the other 75 percent as
20 serious artists or craft or hobbyists.

21 COMMISSIONER ARANOFF: Okay. Thanks.
22 That's very helpful.

23 Do you think that those two groups have
24 different requirements that they are looking for when
25 they purchase an artists' canvas?

1 MR. DELIN: Pete Delin. Yes. I think
2 absolutely. At the very high professional level, as
3 Paul noted, at the professional level, there is
4 anything from a Normal Rockwell type of fine artist
5 down to the individuals that are selling some of their
6 art or not selling any of their art, but they are
7 proud of it, and they are professional artists, or
8 they are fine artists.

9 I don't think, at that upper level, any of
10 them would ever buy a Chinese canvas, but as you go
11 down the spectrum, a certain amount of them will buy
12 more Chinese canvas, and the lower level, in the arts
13 and crafts area, yes, it does become less and less
14 important. The quality of the canvas becomes less and
15 less important. But to many consumers, quality remains
16 important in everything they buy.

17 COMMISSIONER ARANOFF: Okay. Mr.
18 Straquadine?

19 MR. STRAQUADINE: Paul Straquadine. I'll
20 also bring to your attention there is a common term in
21 the industry of a starving artist, which is an almost
22 romantic feeling that even professional artists
23 embrace, and quite often in my retailing experience,
24 some of the artists that sold their work for the most
25 often shop for very inexpensive things or deals. We

1 have an art advisory board that consults with us
2 quarterly, and artists that sell in excess of a
3 quarter million dollars' worth of artwork a year refer
4 to themselves comically as dumpster divers, that they
5 will find art in trash cans, pull it out, salvage it,
6 refresh it, or rework a piece of canvas.

7 Although high-end, professional artists tend
8 to be more true to their art form and buy the more
9 expensive supplies, there is also a cross-pollination
10 that takes place where even people selling for high
11 margins will buy inexpensive product as well.

12 COMMISSIONER ARANOFF: Okay. Mr. Benator?

13 MR. I. BENATOR: Michael Benator. I would
14 like to also comment that all artists, one of the
15 things they value is their uniqueness or their
16 difference in their technique over somebody else's, so
17 they are always challenging and testing the materials
18 and testing the different techniques that they have,
19 too. They have been known to experiment with the
20 poorest quality to the highest quality pretty much to
21 stimulate them and also to meet the needs of what the
22 story or the artwork -- and I know artists who have
23 used toilet paper as a collage as part of their
24 painting, and what Paul said as far as dumpster
25 diving.

1 It's hard to define a true artist, and it's
2 hard to define the professional artist versus the
3 hobbyist, and the retailers also struggle with that,
4 too, as far as who is the target customer for the
5 marketplace because it is changing, and it's very
6 independent and unique.

7 COMMISSIONER ARANOFF: Let me just follow up
8 because the issue of quality has been central to the
9 arguments that have been made, so I want to ask two
10 questions. The first is to get you to define what do
11 you mean by quality? What makes a canvas of higher
12 quality? And then the second is, in much of your
13 direct testimony, you referred to Chinese canvases
14 being of lower quality, and I guess my question is, is
15 that all Chinese canvas, or do you see a range of
16 quality amongst the Chinese product?

17 MR. DELIN: Pete Delin. Frederick's
18 manufactures products all the way from the very, very,
19 very top end. We have a heavy duty, for example,
20 which is a 12-ounce canvas with a very heavy duty
21 stretcher strip. We also sell in rolls a broad range
22 of different qualities, different weights, different
23 textures, different coatings, different materials, and
24 that is truly at the higher, higher end of our line,
25 and that would be the highest quality. Right now,

1 China is not competing at that level.

2 As you go down the spectrum, we also have
3 our basic flagship product, our Red Label and our
4 Creative Edge. That's also a pretty good quality
5 product. It's a high-quality product used by artists,
6 including the professional artists.

7 On the Chinese side, they have an economy,
8 standard, and a gallery style. The economy is
9 basically a low-end, rather thin canvas with, we
10 believe, an unacceptable coating. The standard and
11 their gallery, a little bit better coating, a little
12 bit heavier weight most of the time with a stretcher
13 strip which is made of a lighter-weight wood.

14 COMMISSIONER ARANOFF: How many of the
15 manufacturers in China do you feel like you've seen
16 their products? Do you feel like you've seen the full
17 range of what's available out there? Are there
18 variations depending on manufacturer? You're sort of
19 referring to the Chinese as monolithic, and I know
20 we've identified at least several producers there.

21 MR. I. BENATOR: Michael Benator. In the
22 beginning, we probably identified seven different
23 manufacturers coming from China. In the past, as the
24 markets developed, there are two primary manufacturers
25 that have imported the most into the United States.

1 We also see other Chinese manufacturers who have not
2 imported into the United States that do sell globally,
3 that sell internationally. With our international
4 products, we've seen it there, too. And what was the
5 rest of the question? That answered it?

6 And I did want to respond as far as the
7 quality. The quality from China in the beginning was
8 very poor. It was a very light-weight canvas. It was
9 all bleached cotton, and the coating was very light
10 weight. Like any product in any market, it's
11 continued to improve, and we've seen it getting better
12 and better, and the quality, in my opinion, includes
13 all parts of the construction of a canvas.

14 The biggest market or the biggest product
15 category is the stretched artists' canvas in which
16 you've got the stretcher bar, and the canvas is
17 stretched over the wooden frame with staples or with a
18 vinyl spline, and the quality includes the quality of
19 the canvas and the texture, the coating and how well
20 the coating absorbs the paint, and also how well it
21 holds the paint from penetrating to the back, called
22 the "strike through." The stretcher bar, the
23 construction of the stretcher bar, the sturdiness and
24 the quality of the stretcher bar is very important to
25 the artist.

1 We did consumer research studies, and in the
2 beginning we thought that the artists just looked at
3 the face of the canvas, at the actual coating, but we
4 found that every one of the consumers out there turns
5 the canvas over, looks at the back, looks at the
6 staples, looks at the quality of the wood, looks at
7 the durability of the construction because a lot of
8 times today the finished artwork does not need a
9 frame. It will just hang on the wall without a frame,
10 so they look at the sturdiness of the stretched canvas
11 and make sure that it is of quality construction.

12 COMMISSIONER ARANOFF: Thank you very much.
13 I see my yellow light on, so I'll stop right there.

14 CHAIRMAN KOPLAN: Thank you, Commissioner.

15 First, this is for Mr. Benator or Mr.
16 Straquadine and also Mr. Rathslag to domestic
17 producers. Respondents' prehearing brief argues, at
18 page 24 and elsewhere, and this is a follow-up to the
19 line of questioning that Commissioner Aranoff just
20 had, that sales of subject imports have expanded
21 demand for artists' canvas to a new category of
22 purchasers with limited budget, such as mothers of
23 school-age children and young professionals decorating
24 their first apartment. If the subject imports were
25 not available, this category of consumers would not

1 purchase artists' canvas at all.

2 My question is in three parts. First, do
3 you agree that sales of nonbranded, low-price-point,
4 entry-level, Chinese products have resulted in
5 increased demand for artists' canvas, and if not, why
6 not?

7 MR. I. BENATOR: This is Michael Benator.
8 Yes, we do agree that the sale of nonbranded, low-
9 priced, artists' canvas has increased the industry and
10 has increased the sales. Two things: If you look at
11 anything, or you're buying it on a regular basis,
12 especially if you're an artist, and you want to paint,
13 and you see a price that's half of what you were
14 paying for it, you load up. When you have it in your
15 studio, you paint more of it. So we do believe that
16 it has increased the market and allowed retailers to
17 promote it more and to bring customers into the store,
18 which we all do strive for.

19 The other thing I would like to add, though,
20 is the canvas panel business used to be the
21 inexpensive. It's with the recycled cardboard and a
22 less-expensive canvas that we glue to the board, the
23 cost of stretched canvas prices have come down so
24 much, that people can buy stretched canvas at these
25 lower prices and replace some of the canvas board

1 sales that we've had.

2 CHAIRMAN KOPLAN: Thank you. Mr. Rathslag,
3 do you agree with?

4 MR. RATHSLAG: Yes. I would agree with
5 that. Usually when something is inexpensive, you can
6 sell more of it in general, so if there is something
7 inexpensive, people will maybe use it quicker or less
8 carelessly or less carefully.

9 I would also like to say Tara and I both
10 have products across the whole spectrum: less-
11 expensive canvas boards, promotional stretched
12 canvases, all kinds of products to meet both the low
13 end and the high end of the product category.

14 CHAIRMAN KOPLAN: I appreciate that. That
15 leads me into the second part of the question, and
16 that is, do domestic producers offer low-price-point
17 or entry-level artists' canvas, and if so, what share
18 of total domestic production is accounted for by the
19 entry-level products?

20 MR. STRAQUADINE: That's a tough question.
21 Paul Straquadine. I would say that we can follow up
22 with an answer to that question, but from the hip, I
23 would say at least 40 percent of the market is for the
24 inexpensive canvas. I also would add that there is a
25 substantial amount of trading down that takes place

1 when a product is promoted at 70 percent off. Artists
2 that would normally have considered purchasing a
3 Belgian linen or a heavy duty, stretched canvas may
4 trade down to something that's in a twin pack or less
5 expensive at times, and that encroaches upon the
6 premium product sales and starts the downward pricing
7 pressure.

8 CHAIRMAN KOPLAN: I appreciate that. If you
9 could expand on that for purposes of the post-hearing,
10 I would appreciate that as well. In doing so, if you
11 could identify which, if any, of the products for
12 which staff collected pricing data you consider to be
13 entry-level products. Okay?

14 This, you'll probably want to get into in
15 the post-hearing as well, but anything you can give me
16 now, I'll take, and that is what share of the subject
17 imports are accounted for by entry-level products?

18 MR. I. BENATOR: Michael Benator. We'll
19 have to respond back. We can't speculate. We'll have
20 to research that.

21 CHAIRMAN KOPLAN: As best you can.

22 MR. I. BENATOR: I would like to add that
23 one of the first areas that got hit for us was the
24 real low-priced -- we call it our Brush Strokes, which
25 is with a thinner stretcher bar stapled -- that was a

1 Tara Materials Brush Stroke label plus also some
2 large, key retailers had their own private label that
3 had this very similar construction, very similar
4 product, and that's what went offshore.

5 CHAIRMAN KOPLAN: Thank you. Thank you.

6 Mr. Rathslag, is there anything you wanted
7 to add?

8 MR. RATHSLAG: No. Pretty much, I think I
9 answered before that we have a broad range of
10 products.

11 CHAIRMAN KOPLAN: Okay. Thank you.

12 Mr. Straquadine, if I can come back to you,
13 the Respondents assert at page 6 of their prehearing
14 brief that, and I'm quoting, "Tara is a producer of
15 digital-print canvas." They actually have a
16 characterization in there that's BPI, so I can't refer
17 to their characterization, but your counsel is aware
18 of it. And then they go on to say, "As a participant
19 in this market, it is unclear why Tara failed to
20 identify in the petition other U.S. producers of
21 digital-print canvas that Respondents were able to
22 identify through a review of publicly available
23 information," and I've heard this argument again this
24 morning.

25 I'm calling on you because I believe that

1 you stated in your direct testimony that application
2 of a top coat only is not enough to make a firm a
3 domestic producer, and I see you're nodding your head
4 there. I got that right. Is it your understanding
5 that all of the firms Respondents claim are additional
6 producers of digital canvas actually apply a top coat
7 to already finished canvas?

8 MR. THOMPSON: Mr. Chairman, George
9 Thompson. Mr. Straquadine does not know the names of
10 the parties that have been identified by Respondents.
11 They have claimed confidential treatment for all of
12 those, so those have not been distributed to Tara.

13 CHAIRMAN KOPLAN: Can you get back to me on
14 that post-hearing?

15 MR. THOMPSON: Yes, indeed.

16 CHAIRMAN KOPLAN: Okay. Thank you.

17 Mr. Benator, were you aware of the existence
18 of other domestic producers of digital-print canvas at
19 the time of the filing of the petition but failed to
20 include those details in your petition? I've been
21 hearing that argument on the other side.

22 MR. I. BENATOR: Michael Benator. I would
23 like to respond. There was one company who we did --
24 I believe we represented, and then they were acquired
25 by a much larger textile mill, and that was submitted

1 back in April of '05. The allegations as far as other
2 producers are the ones where there is a final top coat
3 that's put on it primarily for the ink jet market, an
4 ink jet-receptive top coat, and that's why we will
5 provide the information separately.

6 CHAIRMAN KOPLAN: Thank you very much.

7 Mr. Thompson, let me come back to you. This
8 is a follow-up to what I was asking before.

9 Respondents are arguing at page 11 of their
10 brief that because the Commission was not made aware
11 of the existence of significant domestic producers or
12 converters of artists' canvas that, and I quote, "the
13 Commission should be prepared to apply adverse facts
14 available, and Respondents will make recommendations
15 in its post-hearing brief based on producers that have
16 not responded by that time."

17 Exhibit 2 to Respondents' brief contains a
18 list of firms that Respondents believe may produce
19 artists' canvas. I've heard your clients' answer
20 regarding producers that weren't identified in the
21 petition. I've heard what you've said as well. I
22 would like you to take that exhibit into account in
23 your post-hearing response and, at the same time,
24 comment on their argument that we should apply adverse
25 facts available if we find that their argument has a

1 basis.

2 MR. THOMPSON: Yes, I will, Mr. Chairman.
3 What I would ask, though, is that -- I'm at a bit of a
4 handicap because that information, even though those
5 companies are not part of the Respondents' coalition,
6 business-proprietary treatment has been claimed for
7 their identities. If you look in the accompanying
8 materials in Attachment 2 to their brief, you'll see
9 that there is information from public Web sites that
10 has been claimed for confidential treatment, and our
11 view is that information identifying the names of
12 companies and the products that they offer should not
13 be designated as business proprietary. I think that's
14 a great stretch of the Commission's rules, and I
15 certainly can't go back to my clients and show them
16 Exhibit 2 and ask them, what about this company? Do
17 they do a top coat that they buy from you, or are they
18 just a reseller?

19 So I would ask the Commission to resolve
20 that issue as quickly as possible so that I can give a
21 fully informed response with my client's input.

22 CHAIRMAN KOPLAN: I appreciate what you're
23 saying. I would ask that you get together with our
24 staff, with Ms. Mazur, subsequent to the hearing and
25 see if you can work through that. Opposing counsel

1 can also be involved in that discussion.

2 MR. THOMPSON: Will do.

3 CHAIRMAN KOPLAN: Will you do that? Thank
4 you very much. I see my time has expired, and I'll
5 turn to Vice Chairman Okun.

6 VICE CHAIRMAN OKUN: Thank you, Mr.
7 Chairman, and I would like to welcome the panel here
8 this morning. I very much approach you taking the
9 time to be with us. I'm wondering if there is going
10 to be a coup back at Tara. You seem to have all of
11 your top management here. Hopefully, you will return
12 soon.

13 I do have a few questions just again on
14 trying to understand the product and the domestic
15 industry here. It's always interesting to hear about
16 something that we haven't heard about before, and this
17 is a product that I haven't had the chance to look
18 into. I can't say I'm an artist. I guess I'm the mom
19 of school-age children who like to paint, so I'm
20 curious about some of the responses to the chairman.
21 I may go back to that.

22 But let me start, if I could, Mr. Thompson,
23 just to follow up a little bit of what the chairman
24 was saying because, again, in defining domestic
25 industry and who is part of it, without looking at the

1 confidential names, I guess I'm just trying to have a
2 better understanding of which converters you would say
3 should be included in the domestic industry because
4 it's my understanding that the position taken in the
5 prehearing was, yes, there are converters, and, yes,
6 they are part of the domestic industry, but that there
7 are now distinctions being made between a company who
8 takes a bulk roll, stretches it, versus one who takes
9 it and puts a final coating.

10 So anything that you could just help me out
11 here, and I understand the responses to the chairman,
12 some of that may involve confidential information, but
13 I'm really just trying to struggle with who really is
14 a converter and who is not based on what these
15 witnesses know about the industry in general and what
16 the end products are that are being sold. If you can
17 help me out on that.

18 MR. THOMPSON: Well, I certainly hope so,
19 and then I'll turn it over to the Tara witnesses.

20 What we consider a converter is a company
21 like Masterpiece, for example, which will take coated
22 canvas that it purchases, usually in bulk form, and
23 stretch it and put it on a stretcher bar, for example,
24 or typically make what the Commission has termed
25 "finished canvas." So those are the companies, and

1 that is the process that we would consider converters
2 and conversion.

3 VICE CHAIRMAN OKUN: Just so I'm clear, it
4 has to be stretched. So, in your view, you have to
5 take what's been a coated, bulk product and stretch it
6 to do something with it to become what we're defining
7 as finished. Mr. Benator?

8 MR. I. BENATOR: For the simple artists'
9 canvas, that's what we would argue because it also
10 involves the wooden stretcher bar and quite a bit of
11 added value to complete that process. For the digital
12 canvas side, it's mainly with the ink jet where there
13 is an additional final finishing top coat layer that
14 we are already considering that in our production
15 values and in our sales values into the U.S., and then
16 when they put that finishing top coat, it's more of
17 kind of a final coat. If those totals were included
18 as producers, we would consider that to be double
19 counting and overstating the size of the U.S.
20 industry. Does that help?

21 VICE CHAIRMAN OKUN: Yes. I guess what I
22 think we're lacking is just trying to make sure that
23 we understand the actual value added in the digital
24 coating and what those companies who do that are
25 actually adding because, again, that's something that

1 seems a little unclear on the record at this point.

2 MR. FREEMAN: Ron Freeman, if I may add to
3 that. In many cases, we sell a product, what we call
4 pre-jet, and they may put another coat on it, and they
5 may not put another coat on it. We also sell a
6 product that is printed on without adding anything to
7 it. So our position is that is minimal value added to
8 this product.

9 VICE CHAIRMAN OKUN: When you said that's a
10 pre-jet, does that mean when you're coating, what you
11 do, what Tara does, is add something in addition to
12 what they would add onto something that just goes to
13 be a stretched canvas.

14 MR. FREEMAN: No. It can be utilized for
15 either one. It depends on whether it's a large, bulk
16 roll, or we decide to cut it up and stretch it or put
17 it on a panel. It can be used in either case. The
18 only issue is that we have customers who put their own
19 ink jet-receptive coat on it, or they may print on it
20 as it is. It just depends upon what their desire is
21 and what they think is the best receptive coat.

22 VICE CHAIRMAN OKUN: Okay. All right. Then
23 I will look forward to the responses post-hearing to
24 better understand the value added and what the
25 distinctions are between those two, the bulk sales to

1 the digital print market versus some of the other
2 categories because, again, Mr. Straquadine, when you
3 were going through your list of the types of products
4 that are out there, and if the Commission continues to
5 consider one like product, you talked about stretched,
6 you talked about panels, archival pads, rolls, and
7 print. So of those, the ones that would be further
8 converted are the stretched, or where you think the
9 converters would be included in the domestic industry
10 would include stretched?

11 MR. STRAQUADINE: I think that would entail
12 both rolls either sold to people who stretch canvas or
13 people who convert it to ink jet canvas.

14 VICE CHAIRMAN OKUN: Okay. I'm probably not
15 being very clear in my question. Again, for purposes
16 of the domestic industry requirement, the legal
17 requirement, who is in the domestic industry, in
18 addition to the producer of the bulk rolls, as I
19 understood the position, it was for those who stretch
20 canvas and finish it and add something to it, those
21 converters would be part of the domestic industry.

22 So when you're referring to these products -
23 - the stretched, the panels, the archival, the pads,
24 the rolls, the print -- would everything besides print
25 and rolls be ones where another company may be doing

1 something that amounts to conversion for purposes of
2 the domestic industry like the archival boards?

3 MR. STRAQUADINE: Paul Straquadine. Yes, it
4 is possible, although archival boards may be the one
5 exception that you do raise or a very minor part of
6 the industry. Stretched canvas, canvas panels, rolls
7 are converted within the artists' canvas industry. A
8 domestic artists' canvas that is intended for painters
9 is a very closed community. It is an industry where
10 everyone knows everyone as opposed to print canvas,
11 which is kind of like the wild west. It's the new
12 frontier. People are getting into it new and fresh
13 every day.

14 Many large printer manufacturers purchase
15 their own brand and will either purchase it finished
16 or have an ink jet-receptive coating applied to it.
17 So it's almost like an apples-and-oranges analogy when
18 you compare the two industries, one being more
19 traditional and the other being a new expansion
20 market.

21 VICE CHAIRMAN OKUN: We were talking about
22 the digital-print market. When you were responding to
23 the questions about quality earlier, does it matter in
24 terms of when you talked about the higher quality
25 being the weight of the canvas, does a digital print

1 require a higher quality, or if the Chinese were
2 selling the bulk in the United States, could they sell
3 directly to a digital printer as well with the quality
4 as you've described it as being thinner?

5 MR. STRAQUADINE: Yes, they are, and they
6 have.

7 VICE CHAIRMAN OKUN: Okay. So it doesn't
8 matter on that. Mr. Benator?

9 MR. I. BENATOR: Michael Benator. The
10 digital-print market; we've broken it out between two
11 markets there, too. There is the graphic art market
12 in which they do higher-volume art reproductions, and
13 there the quality is not as demanding or as high
14 quality as the fine art reproduction. They will sell
15 one, two, maybe 100 at most, and the artist signs them
16 and adds embellishments to it. So there is that range
17 of product, too, for the digital market.

18 VICE CHAIRMAN OKUN: Okay. And then a
19 follow up for post-hearing for you, Mr. Thompson.
20 Exhibit 7 of Respondents' brief, which looks at
21 shipments into the different categories -- it's one of
22 the exhibits they use for their argument on attenuated
23 competition and breaking down where the U.S. producers
24 are shipping versus where the subject imports are
25 coming in in their different categories, if you could

1 comment on that exhibit in the post-hearing, I would
2 appreciate that as well.

3 MR. THOMPSON: Certainly.

4 VICE CHAIRMAN OKUN: Thank you. Mr.
5 Chairman, I see my light is about to change.

6 CHAIRMAN KOPLAN: Thank you. Commissioner
7 Hillman?

8 COMMISSIONER HILLMAN: Thank you, and I,
9 too, would join my colleagues in welcoming you all
10 here today. We very much appreciate your time and all
11 of the answers to our questions.

12 If I could follow up just a little bit on
13 the questions that Vice Chairman Okun was just asking
14 to make sure I understand the digital-print market
15 because I want to follow up, Mr. Benator, on the
16 comment you made in terms of this diversion in where
17 this digital product goes.

18 Just so I understand it, we've seen this
19 list of your top 10 customers. We see who is
20 appearing here today, but is this digital product
21 changing that in the sense of is the digital product
22 something that one would go to a Staples or more of an
23 office products market? Is that where this product is
24 largely being sold, and is that changing your customer
25 base and how products get priced and thought about, at

1 least for this little end of the product niche?

2 MR. STRAQUADINE: Paul Straquadine. Yes and
3 no. While office supply do sell digital-print canvas,
4 it is a very small market, a market that my wife might
5 pick up a pack and print my grandson's picture on.
6 The art reproduction really is a market that printers
7 or publishers will publish the canvas and then have
8 large runs or even small runs printed. It seldom goes
9 directly to a retail store. It goes from the printer
10 directly to a gallery or to a retail store in the
11 finished artwork where you walk into a discount
12 retailer perhaps and buy a 1620 framed print of a
13 Florida sunset that's already been printed on canvas,
14 sealed and framed, and you buy it at that point.
15 There is very little resale retail of print canvas as
16 compared to the overall market.

17 COMMISSIONER HILLMAN: Again, I'm trying to
18 understand it because obviously you're talking about a
19 different thing that's getting printed on it, meaning
20 a photograph, but it may be of more appeal to those in
21 the photography business rather than, per se, art in
22 terms of hand-painted art. Is that fair to say that
23 there is now this distinction where for the first time
24 people that are doing what I would describe as
25 photography are now purchasing canvas in a way that

1 they might not have in the past?

2 MR. STRAQUADINE: That is entirely true, and
3 that is often the office supply pack resale.

4 COMMISSIONER HILLMAN: But in the total
5 scheme of the canvas product that is the subject of
6 this investigation, you're saying that is very small.
7 Do you have a sense of the total portion of the
8 product being sold goes into what I'll describe as the
9 photography end of it as opposed to the pure art end?

10 MR. STRAQUADINE: Less than 10 percent would
11 be for the photography market or for the home
12 photographer. The professional photographer who is
13 reprinting actual photographs or reprinting digital
14 photos of original artwork is what typically gets
15 reproduced in runs of 500 to 5,000 sheets at a time.
16 More common, it is artwork that's being reproduced as
17 opposed to photos.

18 COMMISSIONER HILLMAN: All right. Mr.
19 Benator?

20 MR. I. BENATOR: I would like to add that
21 with the digital market, because computers and
22 technology is moving so fast, we are seeing a lot of
23 professional artists today -- when they sell
24 reproductions, it used to all be limited editions on
25 paper because the price of the materials -- the

1 printers, they have got these wide-format printers
2 that can print up to 12 colors on a machine that's
3 probably less than \$3,000, we're seeing more and more
4 artists taking control of their reproductions and
5 buying printers or co-opting together and then buying
6 these rolls of ink jet canvas and controlling and
7 printing their own reproductions. So we're seeing
8 that develop at a rapid pace.

9 COMMISSIONER HILLMAN: Okay. Well,
10 obviously, I would join my colleagues in saying
11 anything that you can help us understand in terms of
12 the production process and value added by those that
13 are doing the ink jet coating, that's, I think, where
14 we really need some help in terms of how difficult,
15 expensive, how much value added is there in going from
16 the bulk canvas to the ink jet-ready product. We
17 really do need to make sure we understand from your
18 perspective all of that.

19 If I can then go to the issue of pricing,
20 the Commission selected, I'm sure with your counsel's
21 help, eight products to price so that we could
22 understand what's going on in terms of domestic
23 industry prices versus Chinese prices. Unfortunately,
24 because the actual pricing data itself is
25 confidential, this is a little bit tricky for me, but

1 I was very struck in looking at them.

2 I've heard your testimony about the Chinese
3 prices and how low they are and how it's driving
4 prices down, but I have to say when I look at
5 particularly the stretched canvas products that we
6 priced -- we priced an eight-by-ten, a 16-by-20, a 16-
7 by-20, and a different 16-by-20, stapled on the back,
8 side stapled, with spline, et cetera, four different
9 products.

10 The first one, the eight-by-ten, stretched
11 canvas, side stapled, we clearly saw a big price
12 decline in our prices. The other three, however, did
13 not show price declines. If anything, they may have
14 shown some price increases. I'm trying to understand
15 why. I've heard your testimony that it makes it sound
16 like all prices generally were going down over this
17 period, and there was all of this competition going
18 on, so why, when I look at the pricing data that we
19 have before us, do I see declines in one product and,
20 in essence, no declines and/or increases in these
21 other products? The specific products themselves,
22 their descriptions are not confidential; it's only the
23 actual data. Help me understand what's going on, that
24 we do not see price declines in a significant number
25 of the products that we priced?

1 MR. THOMPSON: Commissioner Hillman, if I
2 could just clarify for the witness, Products 1 and 2
3 showed price decreases. Products 3 and 4 showed price
4 increases.

5 MR. STRAQUADINE: Not being privy to the
6 pricing information that you have, Products 3 and 4, I
7 think, start to capture the higher end part of the
8 market. I think Products 1 and 2 are more of the
9 entry-level products that were chosen, and with the
10 pricing policy of having a higher retail, larger
11 discount, everyday sale, it's great to attract them
12 with the economy product and then, where possible,
13 sell at a higher retail and increase margins for the
14 retailer and the distributor or the importer of
15 record.

16 COMMISSIONER HILLMAN: So you're saying, to
17 the extent that some of these products reflect, again,
18 this higher-end product that presumably is purchased
19 by, as you described it, these professional artists as
20 opposed to the hobby person, they are not switching,
21 is what you're saying. They are not necessarily
22 demanding a lower price for a lower-quality product.

23 MR. I. BENATOR: We're saying that 75
24 percent of the serious artists that are hobbyists are
25 switching, and of the 25 percent that are professional

1 artists, and this is conjecture as far as what the
2 percentages are because there is no valid data, even
3 some of those are switching for the allure of prices
4 and some of the techniques that they are willing to
5 try, and the quality is not as important.

6 I did want to say that we do not have any
7 information as far as who responded and how they
8 responded. I believe that they are responding based
9 upon their standard retail, and we sell wholesale
10 only. We sell to the distributor, who then resells it
11 to the independent, and we also have prices that we
12 have wholesale that we sell to the large retailer.
13 What they sell it to the consumer --

14 COMMISSIONER HILLMAN: We would not be
15 looking at retail prices. We're looking at the first
16 arm's-length sales. We're looking at your prices to a
17 wholesaler. We're looking at an import price. This
18 is not about retail.

19 What I'm trying to understand is, again, I
20 hear everything you've said; it just, to me, does not
21 square with the data that we have on the record, and
22 that's what I'm trying to understand.

23 Last question because the light is on. How
24 big a role are brands? You've discussed your
25 Frederick's brand and these other things. How

1 important is brand name, and has that changed over
2 this period of investigation?

3 MR. DELIN: Pete Delin. Brand is always
4 very, very important. Consumers, when they are happy
5 and have a good experience with a brand, they like to
6 go back to that brand, and we have been the recognized
7 brand for years.

8 Another important factor is presence. If
9 you have presence in the store, it's more likely that
10 the consumer that comes into that store is going to
11 buy your brand because it's there, and that's the most
12 important facet of branding. It's extremely
13 important, but you have less and less ability to
14 compete, even with a powerful brand, as the price goes
15 down. As the price goes down, the 40 percent less
16 than your brand, more and more consumers are going to
17 be attracted to the lower price as opposed to the
18 brand.

19 COMMISSIONER HILLMAN: Okay. I appreciate
20 those answers. Thank you.

21 CHAIRMAN KOPLAN: Thank you. Commissioner
22 Lane?

23 COMMISSIONER LANE: Good morning. Mr.
24 Thompson, I would like to start with you and start
25 with the definition of domestic like product.

1 MR. THOMPSON: Yes, ma'am.

2 COMMISSIONER LANE: In looking at this case
3 and looking at the data on bulk versus finished, I am
4 struck by a lot of variations, and I'm just sort of
5 curious as to why the Petitioners are advocating one
6 like product rather than two like products, and so I
7 would like to hear your argument, the strongest
8 argument you have, as to why bulk and finished should
9 be treated as one like product.

10 MR. THOMPSON: Well, Commissioner, our view
11 is that the traditional six-factor analysis, which we
12 analyzed in the brief, really pointed to that
13 conclusion, that if you were to apply the Commission's
14 traditional analysis, that the production processes,
15 the actual physical capabilities of the product,
16 pointed to a single like product. Then if you were to
17 apply the finished-semifinished analysis, for the most
18 part, those factors pointed toward a single like
19 product as well.

20 So it is our view that in defining the
21 domestic industry, the Commission would look,
22 especially in view of some recent cases like Tissue
23 Paper and Orange Juice, although those hadn't been
24 decided before the petition was filed, they
25 corroborated our view that really the dividing lines

1 could not be found.

2 Keep in mind that a large portion of what we
3 call bulk canvas really can be used as a finished
4 product. In fact, Tara, from what they have explained
5 to me, sees bulks as, in a sense, a finished product,
6 the sense being that you can actually paint on it.
7 Now, you may have to cut it. You may have to hang it
8 or stretch it, but it is a product that can be painted
9 on.

10 So I would question whether it even would be
11 considered a semifinished product under the
12 Commissions' traditional analysis there. I think you
13 could argue both ways, but certainly the fact that all
14 artists' canvas can be painted on, whether it's in
15 bulk or finished form, to my mind, weighed in favor of
16 finding one like product.

17 COMMISSIONER LANE: Okay. Thank you.

18 Why have imports of bulk canvas from China
19 been limited during the period of investigation, and
20 do you expect that this trend will continue, and if
21 not, why do you believe imports of this product from
22 China will increase?

23 MR. DELIN: Pete Delin. I believe that
24 there is a very clear and precise continuum here in
25 terms of the whole process. As I said in my

1 presentation, they started out with 1620s and 1824s,
2 which are the big-volume sellers in the marketplace
3 and at the lower end, and over time they have added
4 more products and more sizes and different qualities,
5 even some different configurations, and then panels
6 and pads and some rolls are beginning to come in. We
7 see this as a very obvious continuum in that process.
8 As their production, their infrastructure is built up,
9 they will continue to take on newer and more and more
10 products as the process goes on.

11 On the side of the bulk canvas, the print
12 canvas, again, in the process of this continuum, when
13 they identify that as a market that they want to take
14 on and participate in, we see a very significant
15 increase in volume in that area.

16 MR. STRAQUADINE: I would also add that it
17 is natural to go after the cherry first. The
18 commodity items, the items that sell the most of in a
19 market like the U.S. at retail going after the big box
20 craft and hobby and art store chains is the place you
21 would want to go first, especially with a product that
22 is going to require a good amount of conversion or
23 labor to take it from a bulk to a stretched canvas or
24 to a canvas panel. You would want to exploit the
25 inexpensive labor rates in the Chinese economy as

1 opposed to bringing it to the United States,
2 assembling it here, and having to pay higher rates and
3 thus having a higher cost. It would almost level the
4 playing field.

5 MR. I. BENATOR: Michael Benator. I would
6 like to add that with the digital-print canvas
7 business, it's grown double digit the last two years.
8 We expect it to grow again double digit this year, and
9 so it's very ripe for a Chinese market to go after.
10 As far as specific information, we know of one large,
11 private-label OEM who puts their name on a product,
12 and the same canvas that we use for an assembled
13 artists' canvas is sold in bulk, ink jet coating is
14 put on top of it, and then that is sold into the
15 United States on the digital canvas side. That same
16 product that we sold as a pre-jet is being quoted in
17 very large volumes by China as we speak. It's the
18 same exact product that we put on assembled artists'
19 canvas, and we also sell it in rolls, too, to the
20 retail arts store.

21 COMMISSIONER LANE: Okay. Thank you.

22 I would like for you to talk about the
23 grades and different types of artists' canvases that
24 are available from certain sources, either from the
25 domestic industry or the imports, how the products are

1 graded and how you come to those different gradations
2 and exactly how you do that or what they mean.

3 MR. STRAQUADINE: Well, artists' canvas
4 comes in a multiple of styles, the fabric itself.
5 Traditionally, in the art industry, we follow the
6 textile industry weights and measures classifications
7 where we take fabric and weigh it per how many ounces
8 of fabric per square yard that goes into a specific
9 grade of canvas, whether it be cotton, linen, muslin,
10 jute, polyester. We weigh it quite carefully, and
11 that's how it gets purchased before it gets coated.
12 Oftentimes, people new to the artist industry will
13 weigh their canvas after they have put the chemical or
14 the jesso on top and give the false impression that
15 it's an eight-, a nine-, or a 12-ounce canvas when
16 they started out with a three- or a four-ounce base
17 material.

18 By far, the best-selling canvas weight in
19 the artists' canvas industry is a seven-ounce,
20 unbleached, cotton fabric. That is your largest
21 seller. Premium products go into cotton-polyester
22 blends, or the most premium of product is a linen. We
23 choose to purchase all of our linen, both grown and
24 woven, in Belgium where we believe the flax plant that
25 that comes from is of the highest quality, and the

1 weavers have the most control over the quality of that
2 fabric.

3 Once we acquire our fabric, then we apply
4 our jesso coating in often a machine-primed setting.
5 We have now four coating lines where we coat our
6 canvas mechanically to a very specific grade, applying
7 two, three, or even four coats of the artist coating
8 that the paint or the print media will sit on top of.
9 We manufacture literally hundreds of styles, hundreds
10 of different formulas on each specific fabric, but,
11 again, to classify the best selling, it would be our
12 seven-ounce cotton, unbleached cotton.

13 COMMISSIONER LANE: Now, a follow-up. I
14 would like to know what sizes you sell the bulk in,
15 like lengths. Is it sold like fabric?

16 MR. STRAQUADINE: It typically gets sold in
17 prepackaged allotments. The rolls get sold in
18 anywhere from a 36-inch width up to 144 inches wide
19 and can be sold in three-yard, six-yard, 30-yard
20 rolls, 100-yard rolls, or 1,000-yard rolls. We would
21 consider bulk being 100-yard or 1,000-yard rolls.

22 COMMISSIONER LANE: Okay. Thank you.

23 Mr. Chairman, I see my red light is about to
24 come on, so I will wait until my next round. Thank
25 you.

1 CHAIRMAN KOPLAN: Thank you, Commissioner.
2 Commissioner Pearson, I think you're batting
3 cleanup here.

4 COMMISSIONER PEARSON: Thank you, Mr.
5 Chairman. Fortunately, you've saved some questions
6 for me, so I'll see what I can do. Permit me to
7 extend my welcome also to all of you. I appreciate
8 that you've made the trip to Washington to be here,
9 and I'm learning a lot.

10 What I would like to start with is the whole
11 issue of apparent consumption for this product, which,
12 as I read the staff report, there has really been
13 quite robust growth in consumption, which is a
14 wonderful thing, obviously. What's a little
15 surprising to me is that it appears that apparent
16 consumption has risen faster than have imports from
17 China, and along with that, U.S. shipments by the
18 domestic industry also have risen.

19 So should we conclude from this that there
20 is ample room in the U.S. market for both domestic
21 production and imports from China?

22 MR. THOMPSON: Commissioner Pearson, if I
23 could make some prefatory remarks and then turn it
24 over to the witnesses.

25 COMMISSIONER PEARSON: Please, Mr. Thompson,

1 yes.

2 MR. THOMPSON: Apparent consumption masks
3 the move from what we have been terming finished
4 canvas, traditional stretched canvas, in the United
5 States from U.S. suppliers to China, and, rather, what
6 has been happening is that the U.S. producers, in an
7 effort to maintain their capacity utilization and
8 maintain some kind of market share, have moved
9 primarily, from what I can tell, into the printer
10 market. So we have an expansion of consumption -- you
11 heard Mr. Benator say before that it's grown double
12 digit for them. That has been growing as the
13 traditional stretched canvas, finished canvas has been
14 declining from a U.S. shipment perspective.

15 The second is apparent consumption is a
16 little bit tricky in the case because from what I can
17 tell, when a company like Tara, for example, sells to
18 what we consider to be a true converter, somebody who
19 takes the canvas and stretches it and mounts it on
20 stretcher bars, et cetera, that square yard or square
21 meter of canvas is being counted twice. You're
22 counting it as bulk, and you're counting it as U.S.
23 production of the finished product.

24 So if I understand the presentation in the
25 status report correctly, the growth is a little bit

1 illusional because you are double counting at least a
2 portion of the bulk canvas when you count finished
3 canvas as well.

4 With those remarks, I would like to turn it
5 over to the Tara witnesses.

6 MR. FREEMAN: Ron Freeman. I would like to
7 just add a little bit to that. Mr. Thompson said that
8 the bulk canvas could be converted into what we call
9 or what's been split up in the questionnaire as
10 assembled canvas. Also, this bulk canvas that is sent
11 to further finishers who put this final coat can be
12 double counted. That's showing up again. We're
13 selling it to someone who may or may not add another
14 coat or may put a different packaging on it and sell
15 it into the market which has been double counted.

16 So I would question whether there is really
17 truly increased growth from a square meter to square
18 meter, which has been kind of difficult to convert all
19 of this so, but I do believe, in both cases, it's
20 being double counted.

21 COMMISSIONER PEARSON: Mr. Straquadine?

22 MR. STRAQUADINE: I also would point out
23 that the sale of a finished, stretched artists' canvas
24 or canvas panel can sometimes net a much higher value
25 per square meter than bulk rolls, so while production

1 may have increased in order to satisfy a new, dynamic,
2 growing market, the net dollars have not followed the
3 same formula as they have traditionally.

4 COMMISSIONER PEARSON: Well, given this
5 possibility of double counting, would we do well to
6 focus on bulk canvas as we try to understand what
7 might be happening to overall consumption in the U.S.
8 market?

9 MR. I. BENATOR: That would be fine. This
10 is Michael Benator. That would be fine except for we
11 need to look at Duro and Tara Materials, who also
12 coats and then assembles it. So when we bulk, and it
13 goes into assembled, we put those quantities into the
14 assembled artists' canvas grouping, and when we sell
15 it as a bulk roll or a bulk print canvas, we put it
16 into that bulk category. We took a lot of effort in
17 trying not to double count there. The only place we
18 did adjust our numbers was the bulk canvas that we
19 coated and then sent to Mexico, and then that came in
20 as assembled product. We then added that as
21 additional assembled volume. We showed it as a
22 transfer.

23 COMMISSIONER PEARSON: Mr. Freeman?

24 MR. FREEMAN: I would like to add, our
25 canvas starts off as bulk canvas. Everything we do

1 starts off as bulk canvas. So it is cut, rolled --
2 you know, some of the processor has packaged, but it
3 all starts as bulk canvas, just as a point of clarity.

4 COMMISSIONER PEARSON: Mr. Benator?

5 MR. I. BENATOR: I would just like to add,
6 if you looked at the total volume, square meters and
7 dollars, you would see that from even the bulk artists
8 and some fine artists' canvas side, the volumes had to
9 be going down. I cannot understand or cannot believe
10 that the U.S. production would show an increase in
11 that. If you can pull out, and we would be happy to
12 work on that, and pull out the digital-print canvas
13 side and show that as a separate total, you would see
14 that number is going up, but the bulk artists' canvas
15 and the assembled business, both in dollars and units,
16 for U.S. producers has to be going down.

17 COMMISSIONER PEARSON: Mr. Thompson, you can
18 understand why I'm wrestling with understanding what
19 witnesses are saying versus what I'm seeing in the
20 staff report, and perhaps someone understands this
21 thoroughly, but I'm sure that I do not yet.

22 If the order goes into effect, would we
23 expect to see apparent consumption fall as we're
24 measuring it in our data? Is that going to have an
25 effect of raising domestic prices, at least for lower-

1 end artists' canvas and thus reducing consumption?

2 MR. STRAQUADINE: If there is a reduction,
3 we do not believe it will be dramatic. If, in fact,
4 soccer moms and other new markets have been expanded,
5 then there is no reason for them to stop their
6 purchase, and a great deal of the home decor markets
7 that are alluded to by people not purchasing canvas to
8 paint fine art on but to do home dec. Our television
9 programs that are seen every day on how to fix up your
10 house inexpensively by taking a couple of canvases and
11 a quart of house paint and doing some graphic stripes
12 and that sort of thing.

13 So, no, I don't believe that that market
14 will be affected tremendously. Will prices go up.
15 Yes, they probably will. We've also been told, quite
16 plainly by members of the Respondents and other
17 people, that all people will do is automatically go to
18 Vietnam or to India to try and purchase inexpensive
19 canvas. We've competed quite fairly with India,
20 Vietnam, and other countries, but the nonmarket
21 economy of China has made it an impossibility.

22 So in answer to your question, yes, there
23 could be a minor adjustment to the number of canvases
24 sold. However, we believe the market will benefit
25 because the product mix will no longer be a traded-

1 down product mix, but retailers will, instead of
2 selling 10 canvases at \$6, they will sell maybe nine
3 canvases at \$10.

4 COMMISSIONER PEARSON: Someone in the direct
5 testimony mentioned that there has been a strategy of
6 some retailers to stack it high and watch it fly for
7 the low-priced stuff, and it was that quote that made
8 me think that if you no longer have attractive
9 pricing, then will anyone stack it high, and will it
10 fly, or will that market just kind of shrink?

11 MR. STRAQUADINE: I believe that was my
12 statement from my retail experience. No, I do not
13 believe that that market will shrink because there is
14 no reason not to purchase domestically produced,
15 stack-it-high, let-it-fly canvas. Whether it be Duro
16 or Tara or Masterpiece or any domestic manufacturer,
17 we all make economy products that are available either
18 in bulk packs of stretched canvas or large quantities
19 of canvas panels that can certainly fill that niche,
20 but the key has been the inflated retail. the dramatic
21 discount, that has kind of flooded the market.

22 MR. I. BENATOR: Michael Benator. I believe
23 that they stack it high just because they have to
24 order in full container loads, so they need a place to
25 put it. The prices have already started to go up

1 because of the tariffs that went into effect in
2 November, and, yes, quantity sales have gone down,
3 and, yes, dollar sales have slightly gone down, but I
4 believe if you ask the Respondents, a lot of their
5 sales are still, from a growth standpoint, still
6 holding up pretty well. I don't think it will harm
7 the industry significantly.

8 COMMISSIONER PEARSON: Mr. Chairman, my time
9 has expired, but I'll either come back to this in the
10 next round or ask for some clarification post-hearing.
11 Thank you.

12 CHAIRMAN KOPLAN: Thank you, Commissioner.
13 Commissioner Aranoff?

14 COMMISSIONER ARANOFF: Thank you, Mr.
15 Chairman.

16 In the testimony this morning, you indicated
17 that in 2006, I guess, or 2005 for the first time you
18 had seen the digital product being imported into the
19 U.S. from China. One of the main arguments that the
20 Respondents make in their brief is that a lot of
21 domestic production is insulated with competition from
22 China because a number of products that are made in
23 the U.S. are not made in China or at least are not
24 being exported from China to the United States even if
25 they are made there.

1 So I wanted to go through the various kinds
2 of artists' canvas products with you one by one and
3 have you tell me, to your knowledge, is this product
4 made in China, and has it been exported from China to
5 the United States? I'll maybe start with the bulk
6 product and then go through each of the further
7 processed products, if you could, and tell me what you
8 know. Who wants to start?

9 MR. STRAQUADINE: Bulk product; we've seen
10 very little, penetration of very little nonconverted
11 canvas brought into the market.

12 COMMISSIONER ARANOFF: Okay. Why do you
13 think that is?

14 MR. STRAQUADINE: I believe it's, as I
15 mentioned earlier, the conversion of the canvas
16 creates a lot of labor and a lot of waste and a lot of
17 conversion costs in stretching it or mounting it to a
18 panel. The idea of bringing it in in bulk into the
19 U.S. and then converting it is, for either a Chinese
20 manufacturer or an importer of Chinese product, it's
21 not attractive to incur those costs.

22 Domestic suppliers, with very, very few
23 exceptions -- in fact, at the time of our petition, we
24 believe there were no exceptions -- domestic suppliers
25 had not done any importing of bulk rolls. It was a

1 choice that each company was faced with and is still
2 faced with. Should Tara by Chinese canvas and convert
3 it in our facilities? But we don't see the advantage
4 of changing our supply, and we believe that our value
5 is in sourcing the fabric and applying the jesso, much
6 like Duro's.

7 COMMISSIONER ARANOFF: I understand that
8 argument. It makes sense to me, and yet the data that
9 we have in our staff report do show us that there are
10 some, albeit modest, imports of bulk product from
11 China. Would you speculate that those are being
12 purchased by artists who purchase bulk product and
13 stretch it themselves so that they are more
14 indifferent to the kinds of issues that you're
15 describing, or is it just sort of inexplicable, and we
16 don't know what is causing it?

17 MR. STRAQUADINE: No.

18 COMMISSIONER ARANOFF: Mr. Benator?

19 MR. I. BENATOR: I would like to add that
20 there are bulk rolls coming in from China of raw
21 canvas and, more specifically, the seven-ounce cotton
22 primed with a double or triple priming. In the
23 artists' canvas industry, the bulk of the business, 90
24 percent of the business, is in the assembled, value-
25 added products, and that's the target, that's the ones

1 to get the biggest hit and the biggest bang and to go
2 after the biggest buyers, that's where it is.

3 Frederick's started out as a hand-primed-
4 only, roll canvas business back in 1868, and over the
5 years, even since 1970 when Tara Materials bought
6 Frederick's Artists' Canvas, more and more of our
7 sales have switched from the roll canvas to the ready,
8 prepared where you pull the shrink wrap off, and you
9 start painting, and that's the nature of anything from
10 consumer goods. Everybody's time is limited, so you
11 want to go to the product that meets the needs, and
12 you can start doing what you love and what you have a
13 passion for.

14 So from the fine artists' canvas side, 90
15 percent of it is in the assembled and the value added.
16 It's also where the Chinese can get the highest value
17 per square meter.

18 COMMISSIONER ARANOFF: Okay. Let me go on
19 to some of the other products, then, and just have you
20 go through them. There are the archival boards, there
21 are the -- what are the other boards called? -- the
22 canvas panels, there are the floor coverings and the
23 place mats, and there are the bound pads. Are all of
24 those products made in China, and are they all being
25 brought into the U.S.?

1 MR. STRAQUADINE: Today, yes, they all are.
2 They have filtered in in different degrees and
3 different waves, starting with the stretched canvas
4 and the economy style, then moving into the upgrade
5 styles, then into canvas panels, now rolls and
6 archival boards.

7 COMMISSIONER ARANOFF: I guess what I would
8 ask Mr. Thompson for the post-hearing because
9 obviously our official statistics on imports don't
10 break out these products, is if there is any evidence
11 that you can provide to us that demonstrates that all
12 of these different varieties are, in fact, being
13 imported, that would be helpful to us because I know
14 that the Respondents' argument has been thus far that
15 what's coming in is just the stretched canvas and that
16 a lot of these other products are in there where it's
17 insulated from competition with the subject imports,
18 so I would like ought to be able to have something on
19 the record to address that.

20 MR. THOMPSON: We would be happy to,
21 Commissioner Aranoff. If I could just point out,
22 though, I think what our position is, and I'm not sure
23 if Respondents would agree, is that the imports have
24 been in the traditional finished product segment, and
25 as Mr. Delin pointed out, we've seen some imports

1 starting in what appears to be finished retail packs
2 of print canvas.

3 Now, I'm not suggesting that the Commission
4 engage in a market segment analysis, but the fact that
5 there may not be 100 percent overlap in competition
6 between the U.S. product and the import product, that,
7 say, bulk rolls have not been as prominent in the
8 imports, merely accentuates, when you look at the
9 import-penetration figures over the entire industry,
10 it merely highlights the tremendous damage that has
11 been done in the segment, if you will, that is
12 represented by finished canvas.

13 So I don't really think that's a
14 particularly persuasive argument. It's up to you all
15 to decide, but, to me, the argument that, well, we
16 don't compete with everything, I don't know where that
17 gets them because where they do compete, which was the
18 highest value, and at the time, in 2002, the highest
19 shipment segment and production segment of the U.S.
20 industry, we had been devastated. So the competition
21 may not be across the entire industry, at least yet,
22 but where it has shown up, it has resulted in, to our
23 mind, sufficient damage to the entire industry to
24 warrant an affirmative determination.

25 So you look at the financials. Those

1 financials are based upon the entire industry, all of
2 these products, and the data are proprietary, but the
3 Commission can see where those numbers have gone, even
4 with the primary competition in the finished canvas
5 segment.

6 COMMISSIONER ARANOFF: I take your point on
7 that, and I understand what you're saying. I guess
8 what I would ask you to do in your post-hearing is
9 Petitioners actually have a number -- the number is
10 proprietary -- of the percentage of domestic
11 production that they say does not compete, and you've
12 seen that number. It is a substantial majority in the
13 way that they do the math, so I guess I would ask you
14 to go dissect that number for us, please.

15 MR. THOMPSON: We certainly will.

16 COMMISSIONER ARANOFF: Thank you very much.

17 Just a few follow-ups on the line of
18 questioning that I had been asking. The watercolor
19 canvas product that's the proprietary product that
20 Tara produces; have you seen any signs that that
21 product is being produced in China or some kind of
22 imitation of it?

23 MR. DELIN: Pete Delin. We have a patent
24 pending on the watercolor canvas, and that is the only
25 reason we haven't seen any. It has been a very, very

1 successful product launch for us. As a matter of
2 fact, I believe you could say it's a new category, not
3 just a new product. I have no doubt in my mind that
4 it would be coming in from China as we speak, had it
5 not had this patent pending.

6 MR. STRAQUADINE: I will add that we have
7 recently heard reports of Chinese-manufactured,
8 watercolor canvas being sold into Canada, another
9 market where we're rather strong in. So barring the
10 patent or success or failure, we do believe that that
11 will be on the horizon.

12 COMMISSIONER ARANOFF: So as you understand
13 it, they have managed to replicate the technology, or
14 the formula or whatever it is that's proprietary about
15 it, to make the product. They are just scared off
16 from selling it in the U.S. because of your patent
17 application.

18 MR. STRAQUADINE: I really can't comment
19 why. I can say that we have only recently received
20 reports of a watercolor canvas in Canada with a
21 Chinese source, but we have not been able to test it,
22 see it, touch it to say if they have replicated it or
23 not.

24 COMMISSIONER ARANOFF: Anything else that
25 you can provide us on a confidential basis about that

1 would be very helpful. Thank you very much, Mr.
2 Chairman.

3 CHAIRMAN KOPLAN: Thank you.

4 Mr. Thompson, the public staff report, at
5 pages 519 to 522, lists the findings of staff
6 concerning lost sales and lost revenue allegations
7 made by domestic producers of artists' canvas. I'm
8 particularly directing your attention to page 5-20 for
9 this question. There are a half dozen listed on that
10 page.

11 I can't get into the total numbers of these
12 things because everything is BPI here, so I'm
13 struggling a little bit with you on it, but for those
14 allegations made by Tara that cover stretched canvas,
15 should the weight the Commission places on these
16 allegations be discounted if a significant share of
17 the competition is actually between subject imports
18 from China and nonsubject imports from Mexico? Now,
19 you might want to get into detail on that in the post-
20 hearing with respect to what appears on page 5-20, but
21 anything you can give me now, I would appreciate it.

22 MR. THOMPSON: Our position is that Mexican
23 production is not part of the domestic industry.

24 CHAIRMAN KOPLAN: Characterized as
25 nonsubject.

1 MR. THOMPSON: Nonsubject, yes. Our view
2 would be that competition between Tara's Mexican
3 product and the Chinese product would not be
4 cognizable as part of the injurious effects of the
5 Chinese canvas on the U.S. industry.

6 Now, what I'm going to do is determine
7 whether the characterizations by the Respondent
8 parties to those allegations as to the origin of
9 Tara's product are correct or not, whether it was of
10 Mexican or U.S. origin.

11 CHAIRMAN KOPLAN: The reason I'm asking is
12 because I'm -- on whether the competition is actually
13 between subject imports from China and those
14 nonsubject imports from Mexico.

15 MR. THOMPSON: That's what I need to
16 determine, whether or not those allegations involved a
17 Mexican product or a United States product or perhaps
18 a mix of both, and we'll look into that and get back
19 to you.

20 CHAIRMAN KOPLAN: Okay. Thank you very
21 much.

22 MR. STRAQUADINE: Mr. Koplan, Paul
23 Straquadine. I would also add that although Tara
24 manufactures all of our spline or Creative Edge canvas
25 in Mexico, there are other U.S. producers of spline

1 canvas, so although our production numbers may be
2 large and may be nonsubject, there are domestic
3 producers of that product.

4 CHAIRMAN KOPLAN: Thank you for that. I
5 appreciate it.

6 Mr. Benator -- I think I got it right that
7 time, didn't I? -- Respondents' brief asserts at page
8 23, and I'm quoting, that "testimony at the conference
9 from both Petitioners' and Respondents' witnesses
10 confirmed that the increase in import volume from
11 China is due largely to an increase in demand for
12 Chinese artists' canvas that would not otherwise have
13 occurred."

14 One of those witnesses at the conference was
15 Mr. Marek, director of importing for Michaels Stores,
16 Inc. At the conference, Mr. Marek testified, at page
17 130 of the transcript, and I'm quoting, "Tara may
18 claim that there business with Michaels has decreased,
19 but during 2004, Michaels implemented an automatic-
20 replenishment, inventory-management system which
21 reduced purchases and inventories. The reality is
22 that out-the-door retail sales of Tara's Frederick's
23 brand canvas has grown in excess of 15 percent during
24 2004."

25 Do you disagree with his assessment that

1 retail sales of your Frederick's brand canvas by
2 Michaels actually increased? Have sales of your brand
3 canvas in general increased in 2004 and 2005?

4 MR. I. BENATOR: No, they have not. They
5 have been stagnant, if not gone down, and I would
6 argue, too, that Michaels has been aggressively adding
7 new stores. So if you did comps store data, then I
8 would say it is down.

9 CHAIRMAN KOPLAN: Okay.

10 MR. I. BENATOR: And then you have to pull
11 out the Michaels private label business versus the
12 Frederick's branded business, too. In canvas panels
13 and the Frederick's stretched canvas business, we have
14 worked with Michaels in expanding their planigram and
15 adding some new sizes, too, so that has something to
16 offset that 15 percent sales growth number.

17 MR. THOMPSON: Mr. Chairman, George
18 Thompson, if I may?

19 CHAIRMAN KOPLAN: Sure.

20 MR. THOMPSON: My understanding is that
21 while there may be a growth in the Frederick's brand,
22 that comment from the preliminary conference doesn't
23 address the loss of other types of canvas that
24 Michaels used to purchase like the private label
25 product that switched wholesale to China. So just a

1 small part or a portion of Tara's sales to Michaels is
2 covered in that comment.

3 CHAIRMAN KOPLAN: If your sales volume
4 expands, would that mean that subject imports are
5 generating new sales instead of taking sales volume
6 from domestic producers?

7 MR. I. BENATOR: With aggressive promotions
8 and pricing, yes, and with aggressive store openings
9 and just good store placement, too. Don't get me
10 wrong. We're very pleased with Michaels growing and
11 with the increased store. It's just their assertion
12 that Frederick's has not been harmed by the U.S.
13 imports, we totally disagree with that.

14 CHAIRMAN KOPLAN: I appreciate that. Thank
15 you for your answers to my questions. I think that
16 concludes my questioning, and I'll turn to Vice
17 Chairman Okun.

18 VICE CHAIRMAN OKUN: Thank you. I have a
19 bunch of odds and ends here, so let me see how many I
20 can get through.

21 Mr. Thompson, this would be for post-
22 hearing. You had mentioned, in response to
23 Commissioner Lane's questions about like product, the
24 Tissue Paper case, and in that case I was not part of
25 the majority decision, as you know, but I would ask

1 you for post-hearing to go through for me whether you
2 think this case is distinguishable between what my
3 decision was in Tissue Paper based on the specific
4 facts of this case. If you could, I would appreciate
5 that.

6 Then I had just walked out briefly. Mr.
7 Benator, in response to Commissioner Pearson's
8 question, did I hear you say that there have been
9 price increases, or Tara has gotten a price increase,
10 and if so, if I heard that correctly, if you can tell
11 me what products those are in?

12 MR. I. BENATOR: Pete Delin could probably
13 give more specifics, but I know since 2001, 2002, Tara
14 has very minimal price increases. We have held prices
15 where costs have gone up. We have had, in '05 and
16 '06, price increases. In '05, we added a prepaid
17 freight program where we gave back some of that price
18 increase from a retail price standpoint, but the
19 actual net selling price did not go up.

20 VICE CHAIRMAN OKUN: I know you provided
21 this information, but remind me again. When you do a
22 price increase, has it been across your whole product
23 line?

24 MR. I. BENATOR: No. They are very
25 individualized. It follows product categories, like

1 Frederick's red label stretched will have an average
2 price increase, but depending upon where costs are and
3 margins are, some of the small-selling sizes where
4 we've had the most competition with China would hold
5 the prices. Sometimes we would have to increase them
6 more because the cost increases have gone up. Even
7 within a product category like red label, the price
8 increases or changes are different from a small size
9 to a medium size to the large size stretched canvas.

10 VICE CHAIRMAN OKUN: Maybe, Mr. Delin, you
11 could comment on that, and also just for post-hearing,
12 if you could just break that out so that I can see
13 what you're saying, where the price increases were and
14 how that relates to subject imports. Mr. Delin, did
15 you want to add anything here?

16 MR. DELIN: Pete Delin. No. I think it was
17 well answered. We take price increases when we are
18 able to take price increases based on the cost
19 increases that are passed on to us, and we pass those
20 on based on how much that particular individual
21 product category went up in cost.

22 VICE CHAIRMAN OKUN: Okay.

23 MR. THOMPSON: Madam Vice Chairman, if I
24 may?

25 VICE CHAIRMAN OKUN: Yes, yes, Mr. Thompson.

1 MR. THOMPSON: I understood Commissioner
2 Pearson's question to go to whether import prices had
3 increased as opposed to domestic. I may have
4 misunderstood, but is that a point that you're
5 interested in as well?

6 VICE CHAIRMAN OKUN: I'm interested in that,
7 and I guess I will let him follow up. He may have
8 been on that line of questioning. I was just trying
9 to figure out if it was -- again, I think Commissioner
10 Hillman had talked about the pricing information we
11 have in the record, and to the extent we see price
12 increases in particular categories, so a more full
13 explanation of that for post-hearing would be helpful.

14 And, in particular, on that, the one thing I
15 did want to ask about was between Product 2 and
16 Product 3, and, again, the product categories are not
17 BPI, even though the information is, you had the same
18 size stretched canvas, a 16-by-20 stretched canvas,
19 same weight. The difference, as I understand it,
20 between those two products is one is side stapled, and
21 one is back stapled.

22 So help me out, and this may be you, Mr.
23 Straquadine, in terms of is this also a place where
24 you've seen growth, that consumers just like the idea
25 of a back stapled, even though it might be more, I

1 guess, expensive to produce? Do you see growth there
2 and maybe falling out from the other side, and if so,
3 are the Chinese equally, and do you see competition in
4 both side and back, or do you all have an advantage in
5 back?

6 MR. STRAQUADINE: Well, no. There is no
7 advantage there. The consumers, artists, do prefer
8 more and more the back-stapled product as opposed to
9 side stapled because they can either hang it without a
10 frame or hang it in a frame. It's still the
11 traditional depth. We have seen competition stronger
12 from China in the last few years on the back-stapled
13 product, and that, in fact, helped motivate us to
14 change the majority of our product line from side
15 stapled to back stapled. Again, the conversion costs
16 of taking a product and applying a great deal of labor
17 to it are, in fact, lower in China, so their back-
18 staple process was being offered cheaper than our
19 side-staple process.

20 VICE CHAIRMAN OKUN: That reminds me, and I
21 can't remember if I read this or it has been testified
22 to, which is were the Chinese and the back stapled
23 first, and then you all moved into it? Is this an
24 argument where they have made that they were here with
25 that product, and you are now catching up?

1 MR. I. BENATOR: Tara was the first to
2 introduce a Tara gallery wrap, then we changed it to
3 Frederick's gallery wrap, which was back stapled for
4 many years before China came into the market. Several
5 years ago, before China came into the market, we moved
6 our heavy-duty, our professional grade, because of the
7 heavier stretcher bar and the deeper stretcher bar.
8 With having it back stapled, the artist could do a lot
9 more of the dimensional work without having to put a
10 frame on it, and so we offered that higher-priced
11 product also with the stapling on the back even before
12 China came.

13 VICE CHAIRMAN OKUN: Okay. I guess that's a
14 different product than what we have in Product 3.
15 Okay. So it might be helpful to just put some of that
16 timing and the difference in the products and the
17 difference in the pricing, whether it's viewed as
18 high-end product where you had back stapling, and it's
19 not viewed as that. That would be helpful as well.

20 And a data question for you, Mr. Thompson.
21 I just wanted to have you comment on whether you now
22 view the coverage that we have from Chinese
23 Respondents as fairly complete or do you still take
24 issue with our coverage?

25 MR. THOMPSON: Well, I'm not certain that

1 anything has changed since the pre-hearing report.
2 I may be a little out of touch with that. Our concern
3 was that based on the value data which was being used
4 as a proxy to determine whether questionnaire data
5 covered the full range of imports that had been
6 reported to Customs, that the Chinese value data in
7 the questionnaire were somewhat short of the value
8 data reported by Customs, so we had a concern.
9 I don't recall whether the number is confidential or
10 not, so I won't refer to it, but we had a concern that
11 there may be some imports that had not been captured
12 in questionnaire data and right now I don't know what
13 the answer is, whether more questionnaire responses
14 have come in or whether staff has been able to
15 determine that there is full coverage and it's just an
16 anomaly with the values. So it's not really a
17 question of taking issue with it so much as wanting to
18 be sure that the difference between the questionnaire
19 value and the census value data were adequately
20 covered and we knew why.

21 VICE CHAIRMAN OKUN: Okay. If you could
22 find out for post-hearing?

23 MR. THOMPSON: Yes.

24 VICE CHAIRMAN OKUN: Once the final staff
25 report is in, to have you take a look at that.

1 And then just going back on that, the
2 digital print, one other question just with regard to
3 what value added has done in that process, have you
4 been asked by a company who is doing the digital print
5 to actually do the coating, the inkjet coding,
6 yourself and then sell it to them? Has anyone asked
7 you to do that?

8 MR. I. BENATOR: Yes. When we first came
9 out with an inkjet coated artists' canvas, it was
10 called Tarajet and we coat it ourselves, but it does
11 take -- that final inkjet receptive top coat, it does
12 take a different formula and some different coating
13 equipment and we have found another outside coater to
14 do that proprietary top coat for us that we sell under
15 the Fredrix brand. It's a U.S. company.

16 VICE CHAIRMAN OKUN: Okay. Now that you're
17 saying that, I think I recall that, but that may be
18 helpful in the discussion of what value added is added
19 by that process, to see that.

20 And then just to the Respondents' allegation
21 with regard to Tara's move to Mexico and the timing of
22 it, and I know you testified here today, Mr. Freeman,
23 you had in particular talked about the decisions
24 there. I guess one of the things that the Respondents
25 have raised as part of that is if it were the import

1 competition, that you saw it then, why didn't you
2 bring the case then? If it's moved away, and this may
3 have been in someone else's question, are you really
4 going to bring much finished back if you had an
5 antidumping duty order if you've already made a
6 business decision that you can do a lot of this in
7 Mexico? So help me out on that particular point.

8 MR. FREEMAN: Well, actually, the
9 decision -- we could see where this thing was going
10 and I won't mention names, but two of our major
11 purchasers, customers, had started buying this private
12 label which was high volume, several million pieces.
13 It was pretty obvious that we were not going to be
14 able to compete with that at that time.

15 Now, the question is would we bring it back?
16 If it's competitive. One of the things that we
17 experience, you always have a learning curve to go
18 through, it's a little different dealing sometimes in
19 Mexico. We still maintain a certain amount of
20 production in our Georgia facility and, yes, I think
21 we would bring some of it back. And I would like to
22 argue that stretched canvas, again, the bulk of the
23 assembled sales and volumes, we sell quite a bit on
24 the East Coast and it's pretty expensive to ship
25 container loads of stretched canvas from California,

1 so there would be some advantages for us to continue
2 to make stretched canvas in Georgia to supply to the
3 East Coast and not only that, canvas panels, roll
4 canvas, pads, all those are made in Georgia, so that
5 business would require additional growth in our U.S.
6 facility.

7 CHAIRMAN KOPLAN: Okay. I appreciate all
8 those responses. Thank you.

9 CHAIRMAN KOPLAN: Thank you.
10 Commissioner Hillman?

11 COMMISSIONER HILLMAN: Thank you.

12 A couple of quick follow-ups, I think, on
13 some of these issues relating to prices and costs.

14 I think you just mentioned, Mr. Delin, in
15 response to Vice Chairman Okun that you try when costs
16 are going up to pass along those cost increases in
17 your prices and yet, as I said, when I look at the
18 pricing data in toto, we see prices coming down for
19 product 1, but in general prices for a lot of the
20 other products either steady or up.

21 However, if I look at cost of goods sold,
22 I mean the specific costs that are going into the
23 finished product, we see a fairly significant decline.
24 Why is that? You've just described that you pass
25 along cost increases in the form of price increases,

1 but why do I see such a significant decline in your
2 cost of goods sold for the finished product?

3 MR. I. BENATOR: It's based upon per square
4 meter, Is that correct?

5 COMMISSIONER HILLMAN: Well, again, I can
6 look at it in raw dollars, just how many total
7 dollars, or I can look at it on your value per square
8 meter. Either way, I'm seeing a significant decline.

9 Now, I see there's been a decline in total
10 volume, so I'm trying to understand what from your
11 perspective you feel has happened with respect to
12 costs.

13 MR. I. BENATOR: Well, if the volume is
14 down, then our production costs have gone down
15 because the volume is significantly reduced per square
16 meter. It's because we're selling more bulk of the
17 print canvas business where the value added or the
18 price or the cost per square meter is lower. It's a
19 lower value.

20 COMMISSIONER HILLMAN: Now, obviously this
21 is hard because all the numbers are confidential, but
22 if there is something in the post-hearing brief that
23 can be said to embellish with actual numbers on what
24 Mr. Benator has just said, I think that would be
25 helpful because it does strike me as a little bit

1 different from what I'm hearing in terms of what's
2 happened on the price side. And the second question
3 relates exactly to this same data in terms of the
4 financials.

5 If I look at the net sales value -- again,
6 it's per meter -- again, you see this very substantial
7 decline in what our financial data is showing for
8 sales values and yet that does not seem to be the same
9 trends that we're seeing in the actual prices for the
10 individual products that are being sold.

11 Again, I'm trying to understand why I see
12 prices as either steady or even up a little for some
13 of them, down a little for one, but basically a fairly
14 steady price trend and yet if I look at sales value per
15 unit, per square meter, a very big decline. Why?

16 MR. I. BENATOR: It has to do with product
17 mix and also, I guess, the changes in the sizes that
18 are being sold, too.

19 COMMISSIONER HILLMAN: Again, given that the
20 numbers themselves are confidential, if you can help
21 explain both the cost numbers and the sales value
22 numbers that are in the financial data, contrast it to
23 the pricing data, I think that would be very helpful.

24 MR. THOMPSON: Commissioner Hillman, in a
25 sense, my understanding is it's sort of an apples and

1 oranges comparison because what you're seeing in the
2 price data, those, I assume, are the product specific
3 comparisons.

4 COMMISSIONER HILLMAN: Right.

5 MR. THOMPSON: The change in Tara's product
6 mix, which Mr. Benator alluded to, from stretched
7 canvas to more of the print canvas, would lower the
8 overall cost of goods sold because as you move from
9 the stretched canvas there is fewer components, if you
10 will. As for the value per square meter, that would
11 also reflect that. Print canvas a square meter is
12 sold at a lower value than the stretched canvas.

13 COMMISSIONER HILLMAN: Okay.

14 MR. THOMPSON: And we'll follow that up, but
15 that's the explanation.

16 COMMISSIONER HILLMAN: I followed that.
17 I appreciate that. If there's any, again, additions
18 that you can put to put some specifics on it, that
19 would be very helpful.

20 One of the other specifics that was raised
21 was your specific relationship with one of your
22 customers, I think MacPhersons would be the one, and
23 whether there's anything you can tell me about that
24 relationship that we ought to put on the record to put
25 this in some context.

1 MR. STRAQUADINE: I believe we've responded
2 in the pre-hearing data describing a detailed time
3 line that followed our decision to no longer do
4 business with one of our longstanding customers which
5 was MacPhersons. In a nutshell, today, I will say
6 that we made a decision, toughest in our company's
7 history at the time, to no longer sell a longstanding
8 customer who had started aggressively importing
9 Chinese canvas, selling it as the upgrade and
10 diminishing their support and advertising and
11 promotion of the Fredrix brand and dedicating their
12 sales efforts toward their far more lucrative import
13 program of the Chinese canvas.

14 COMMISSIONER HILLMAN: What I was trying to
15 understand is you made this decision with respect to
16 this one customer, but obviously a lot of your other
17 customers, as you have testified, are buying Chinese
18 product and yet you're still selling to them. That's,
19 I guess, where I'm trying to understand why this was
20 treated differently.

21 MR. STRAQUADINE: The answer is none of our
22 customers, either then or today, were actively
23 targeting Fredrix for replacement. Those other
24 customers were reacting with Chinese canvas because
25 they were being embarrassed in the marketplace because

1 they didn't have the price alternative that the
2 MacPhersons brand was offering, the low price and the
3 heavy discounts.

4 MR. I. BENATOR: Ms. Hillman, Michael
5 Benator. I think what you're asking, MacPhersons is a
6 distributor. They're the largest distributor in the
7 United States. They sell to a lot of independent
8 retailers, where they can combine stretched canvas
9 with paints and brushes and allow them to place
10 smaller orders and then service a large number of
11 retailers out there.

12 That then gave the opportunity for the
13 Chinese canvas to go to a lot more retailers. The
14 large retailers who are represented by the Respondents
15 are large, big volume retailers who can buy direct
16 through China and not necessarily go through the
17 distributor.

18 COMMISSIONER HILLMAN: Okay. All right.

19 MR. I. BENATOR: Does that make sense?

20 COMMISSIONER HILLMAN: That's helpful. Yes,
21 that's helpful.

22 One other item for the post-hearing brief,
23 Mr. Thompson. In their pre-hearing brief, Respondents
24 make a number of specific allegations about Tara's
25 questionnaire data. I just wanted to make sure that

1 you are specifically asked to respond to the
2 particular allegations where they're saying there's
3 discrepancies, in particular, in pricing data,
4 capacity data and import sales data. To the extent
5 that you can comment on the specific things that
6 Respondents have said that are problematic with
7 respect to questionnaire data, I just wanted to hear
8 your take on those.

9 Commissioner Aranoff also a question in
10 terms of the way that they have re-done the math, if
11 you will. I'm wanting to make sure that you're also
12 responding to any allegations made with respect to the
13 underlying data, just to put it on the record in terms
14 of your response.

15 MR. THOMPSON: We believe that their
16 recalculation and their allegations are unfounded. My
17 understanding is that with a couple of minor
18 adjustments that were made following the staff's audit
19 of the Georgia facility that the data were accepted by
20 the commission as being accurate. So we could
21 comment -- I'd prefer to make specific comments in a
22 confidential setting, if I may?

23 COMMISSIONER HILLMAN: Oh, no. I'm saying
24 in the post-hearing brief.

25 MR. THOMPSON: I understand.

1 COMMISSIONER HILLMAN: I just wanted to make
2 it very clear. I just want to make sure we're not
3 leaving something out there that you feel could and
4 should have been responded to.

5 MR. THOMPSON: Yes.

6 COMMISSIONER HILLMAN: I just would
7 specifically like it in the post-hearing. There's no
8 question it involves confidential data and it can only
9 be done in your post-hearing brief.

10 MR. THOMPSON: We will and I'm grateful for
11 the opportunity.

12 COMMISSIONER HILLMAN: Okay. All right.

13 I think with that I have no further
14 questions, Mr. Chairman.

15 Thank you.

16 CHAIRMAN KOPLAN: Thank you.

17 Commissioner Lane?

18 COMMISSIONER LANE: My first question is if
19 I were to go to a retail outlet that handles both the
20 subject imports and the domestic product and let's say
21 a 12 by 12, how would the retail prices compare to one
22 another?

23 MR. DELIN: Typically, what we would see is
24 a very high inflated price on the Chinese product with
25 a rather aggressive, everyday discount of probably in

1 the range of 40 percent, sometimes more, sometimes
2 less, whereas the U.S. branded product, whether it be
3 Fredrix or somebody else, would have a retail that was
4 not as inflated, normal retail, and it could be on
5 promotion or it could be on promotion every day,
6 typically not more than 20 percent or 25 percent.

7 COMMISSIONER LANE: How would you correlate
8 the retail prices with the pricing data that we have?
9 Would the differences in the pricing data that we have
10 between the domestic and the subject imports carry
11 over to the retail product?

12 MR. DELIN: I think we're confused by that
13 question and don't know how to answer.

14 COMMISSIONER LANE: Well, I'm sure that
15 I didn't ask it very artfully.

16 MR. DELIN: Can anybody else help?

17 COMMISSIONER LANE: What I'm wondering is
18 the margins that we see in our pricing data, one
19 product is lower priced than another, are those -- do
20 you see that difference at the retail level, the same
21 margins?

22 MR. I. BENATOR: I guess I don't understand
23 the question either, but I would say that each
24 retailer has their own choice of how much margin they
25 want to make on a product and we don't know what they

1 buy it for, other than what we sell our product for.
2 So what they sell it for and how much mark-up they put
3 on it, we can only speculate.

4 MR. STRAQUADINE: I think I understand your
5 question and my answer would be, yes, you would see
6 discount differences. You would find the domestic
7 product at \$10 and you would find the imported product
8 at \$6 and that discount can very much vary by
9 retailer, but most commonly the margins that the
10 distributor or importer purchased them for and that
11 the importer or actual retailer sell them for are
12 higher in both cases.

13 COMMISSIONER LANE: Okay. Thank you.

14 Let me stick with you, then. In answer to
15 Commissioner Aranoff, you mentioned that one factor
16 affecting conversion costs from bulk to finish is
17 waste. Is waste a major factor? In responding, could
18 you give me some idea of the percentage of waste? In
19 other words, for every 100 square meters of bulk
20 product that goes to finishing stage, how many square
21 meters end up in the finished product and how many end
22 up in the waste bin?

23 MR. STRAQUADINE: I'm going to give it to
24 Ron.

25 MR. FREEMAN: Ron Freeman. Yes. There is

1 some waste. If I may explain, it typically is
2 somewhere in the 8 percent range. I will say this,
3 though, one of the, I guess, best things about Tara,
4 we try to always cut this waste down, we cut it to a
5 smaller size, we stretch it on something smaller, so
6 we try to utilize it, but there is about 8 percent
7 waste in this.

8 COMMISSIONER LANE: Okay. Thank you.

9 In an earlier question, I asked about the
10 size of bulk rolls and you indicated, Mr. Straquadine,
11 that rolls can vary from relatively small width to
12 widths of 10 feet and that lengths could range from a
13 few feet to hundreds of feet.

14 I was a little surprised by your answer
15 because the only pricing data we have for bulk rolls
16 are for 73 inches by 18 feet long rolls and 36 inches
17 by 40 feet rolls.

18 Would you say that most of your bulk sales
19 are for rolls that are much wider and much longer?

20 And, also, could you provide me with some
21 detail on the different size rolls, such as what
22 percentage are sold in rolls of 18 feet and what
23 percentage are sold in rolls that are hundreds of feet
24 long?

25 MR. STRAQUADINE: Yes, Commissioner Lane, we

1 can provide you with all that data. I believe that
2 the questions and the products that were chosen for
3 the analysis needed to be a specific targeted
4 individual product and what was chosen was the most
5 popular retail sales items to be analyzed. I believe,
6 yes, the answer is bulk rolls are often sold longer,
7 not necessarily wider. Wide format is still not a
8 huge area in terms of volume, but anywhere from 73 to
9 53 inches width would be more the norm and longer
10 rolls of 100 yards we would consider more frequently
11 being bulk, but the instances of sales of 100 yards or
12 1000 yard rolls are much less frequent than the six
13 yard or 18 foot roll that was described in the
14 questionnaire.

15 COMMISSIONER LANE: Okay. Thank you.

16 At the conference, Tara said that the bulk
17 and the pre-stretched canvas manufacturing operations
18 are often staffed by the same employees.

19 Can you confirm, either now or in your
20 post-hearing brief, whether the employees you are
21 referring to are production employees and, if so,
22 describe the extent to which they participate in the
23 manufacturing of both bulk and finished canvas
24 products?

25 MR. FREEMAN: Ron Freeman. Yes, it is the

1 same employees and they are production employees. We
2 go through a coating process where they make this bulk
3 canvas which can be determined to be utilized in
4 assembled canvas, bulk canvas, pre-jet, so it is the
5 same employees doing the same thing.

6 COMMISSIONER LANE: Okay. Thank you.

7 Now, in your brief also you talk about
8 scrapbooking accounts for growth in finished canvas.
9 What type of finished canvas are you talking about on
10 scrapbooking?

11 MR. DELIN: We have sold to the arts and
12 crafts market as well as the art market and in more
13 recent years it has evolved into other areas such as
14 scrapbooking and you're probably more familiar with
15 scrapbooking, but right now, it's a very small
16 percentage of our business, but we are promoting it
17 and looking at new products in that arena.

18 Also, scrapbookers can buy existing products
19 that we already make for the artist and decorate it
20 with photographs and embroidery and stamps and that
21 sort of thing. They are already using existing Tara
22 product for that purpose of scrapbooking.

23 Right now, for us, it's a very small part of
24 our market.

25 MR. STRAQUADINE: Paul Straquadine. I think

1 specific to your question would be things like canvas
2 pads where the scrapbooker can tear the sheet out,
3 embellish it and put it into an existing scrapbook,
4 hole punch it and put it in, or another very common
5 phenomena today is scrapbooking or embellishments that
6 become part of the home decor, where you may take a 12
7 by 12 canvas, embellish it with photos of your
8 children or grandchildren or of your wedding, and then
9 hang it on the wall rather than keep it in a book
10 where it may not get viewed as frequently.

11 COMMISSIONER LANE: Okay. Thank you.

12 That's all the questions I have.

13 CHAIRMAN KOPLAN: Thank you, Commissioner.
14 Commissioner Pearson?

15 COMMISSIONER PEARSON: Thank you,
16 Mr. Chairman.

17 Mr. Thompson, back to double counting, if
18 I could. I'm not sure that I understood completely
19 what you were saying before. Is it your contention
20 that we have a double counting problem in these data
21 as between bulk and finished?

22 MR. THOMPSON: Well, I wouldn't call it a
23 problem. I think that to the extent that a shipment
24 of bulk product by a company like Tara, by the
25 producer, or a company like Duro goes to a true

1 converter, that is, somebody who stretches the canvas
2 and places it on the support, the stretcher bar or
3 whatever that may be, and that subsequent converter
4 reports its shipment of the finished product, there is
5 some double counting because that is being captured in
6 the shipments to the converter and then in the
7 shipments by the converter. That artificially
8 inflates the size of the U.S. market, to the extent
9 that the same square meter is being counted twice:
10 once as bulk and once as finished. So that is my
11 point.

12 I think it makes the U.S. market look a bit
13 bigger than it actually is in terms of consumption.

14 COMMISSIONER PEARSON: And have you
15 discussed that issue with ITC staff?

16 MR. THOMPSON: We have not, no.

17 COMMISSIONER PEARSON: No?

18 MR. THOMPSON: Well, because it's -- based
19 on the inclusion of converters, I didn't have a
20 problem with the report identifying what the
21 converters ship. In a sense, that's inexorable that
22 you are going to include that. If you consider a
23 converter that is a stretcher, like Masterpiece, for
24 example, to be a producer, you're going to have to
25 capture their shipments, but it's a point that we

1 would take into account. I don't think that it's an
2 error per se to do that because basically you have two
3 producers of the same product, but what I would ask
4 the commission to keep in mind is in looking at the
5 consumption trends, as well as looking at the overall
6 size of the U.S. market, take into account that the
7 total amount of square meters in the market is a
8 little bit exaggerated.

9 So it's not something that I think is
10 erroneous in the report, rather, I think it's an
11 element of conditions of competition, if you will,
12 when the commission looks at the import penetration in
13 defining the U.S. market, take into account that
14 penetration is at X percent, but that's X percent of a
15 somewhat inflated total consumption amount.

16 COMMISSIONER PEARSON: I've had the
17 opportunity since we last spoke about this to get a
18 clarification from staff. I believe that I'm correct
19 in understanding that they don't believe that there is
20 double counting in the data between bulk and finished
21 that's why I'm trying to understand what you're saying
22 and I may not be in a position to fully do that here
23 in the public hearing, but if you do believe that
24 there is a double counting issue, then doesn't that
25 lead one to think that perhaps we should find two

1 separate like products so that we could deal with them
2 individually and avoid whatever confusion there might
3 be with double counting?

4 MR. THOMPSON: No, I don't think it
5 necessarily weighs that way because it's not really a
6 like product issue. To me, it's a question of how do
7 you define domestic manufacturing or domestic
8 production. As we've seen in, say, the semi-finished
9 analysis cases, my recollection of those is that you
10 can have a semi-finished product that is within the
11 same like product but is being produced in a sense by
12 two different companies. My understanding of those
13 cases and my recollection may be wrong, so don't hold
14 me to this, but my understanding is that in those
15 circumstances you would also have this phenomenon of
16 the same unit of measure being counted twice, once in
17 production of the semi-finished article and then
18 finally in the production of the finished article.

19 And the point about double counting, I'd
20 have to talk to staff about this, but I thought it was
21 almost an exorable conclusion of the way in which the
22 data were gathered that certainly when Tara reports
23 its bulk sales it reports bulk shipments and, correct
24 me if I'm wrong, that it would report shipments to a
25 domestic converter who was making stretched canvas

1 with that bulk canvas and then that domestic converter
2 would turn around and report in its questionnaire how
3 much canvas it shipped, so my understanding would be
4 Tara reported that shipment and the converter reports
5 that shipment.

6 I'm certainly not trying to impugn staff's
7 efforts, that's why I said it's not a complaint, it's
8 merely an observation.

9 If I'm wrong, actually, I would be happy to
10 be wrong, but then the concern arises in the situation
11 where if you were to consider what we think are mere
12 finishers of the print canvas, there the same issue
13 would arise where Tara would report its shipment to a
14 finisher and then if the finisher is considered to be
15 a domestic producer, in that case, the finisher's
16 shipments would be included. So the same square meter
17 gets reported by Tara as a shipment and the finisher
18 as a shipment, even though it's one square meter.

19 COMMISSIONER PEARSON: Well, let's set aside
20 the double counting issue for the moment. You would
21 perhaps be willing to discuss this afterwards with
22 staff?

23 MR. THOMPSON: I would be delighted to.

24 COMMISSIONER PEARSON: And in the
25 post-hearing explain to me what exactly is going on so

1 that we are on the same wavelength.

2 MR. I. BENATOR: Mr. Pearson, we would be
3 happy to provide confidentially the bulk sales to
4 converters and the bulk sales to these finishers.

5 COMMISSIONER PEARSON: Okay. Let me look
6 now just at the bulk side of the market where our
7 record shows a substantial increase in shipments over
8 the period of investigation.

9 What's been happening with that increase?
10 Has it all been exported?

11 MR. I. BENATOR: The sales that we reported
12 were all U.S. sales and, if you pull it out, it is for
13 the digital print canvas. That's what has grown from
14 the bulk side.

15 COMMISSIONER PEARSON: So you would say that
16 basically the entire increase in bulk --

17 MR. I. BENATOR: Totally.

18 COMMISSIONER PEARSON: Pardon?

19 MR. I. BENATOR: Totally. Yes.

20 COMMISSIONER PEARSON: The increase in bulk
21 shipments is all going to the digital print canvas?

22 MR. I. BENATOR: That's correct.

23 COMMISSIONER PEARSON: Okay. So that's
24 become, then a substantial factor in the marketplace,
25 just during the period of investigation.

1 MR. I. BENATOR: That's right. There are
2 some U.S. converters that have sold finished stretched
3 canvas, but there's finished canvas products that we
4 provided the bulk canvas for; that business continues
5 to go down. And it's strictly, clearly related to the
6 growth in the digital print canvas bulk side.

7 COMMISSIONER PEARSON: Okay. And some of
8 the increase in production in bulk in the United
9 States is going to Mexico? That's accounted for in
10 the data in the export shipments?

11 MR. I. BENATOR: There is some increased
12 bulk volumes that are going to Mexico, but if you took
13 the total bulk that was being made in the United
14 States it's less today than it was in 2002. But we
15 have increased -- because we've moved more of our
16 stretched operations to Mexico, the bulk production
17 that's going to Mexico has increased.

18 COMMISSIONER PEARSON: Okay.

19 MR. THOMPSON: I think what Mr. Benator is
20 saying is the bulk that is dedicated to the U.S.
21 market from Tara's perspective, the bulk that either
22 is consumed by Tara or sold to somebody else in the
23 United States, that portion of the production would
24 have declined. What makes up for the difference is
25 that there are increased exports of the bulk canvas to

1 the Mexican operation.

2 MR. I. BENATOR: That is correct.

3 MR. PAGES: Well, maybe this brings me back
4 close to my first point. On the basis of this
5 record --

6 Mr. Chairman, the light is changing.
7 I think I'll pass for now.

8 CHAIRMAN KOPLAN: Okay.

9 Commissioner Aranoff?

10 COMMISSIONER ARANOFF: Thank you,
11 Mr. Chairman.

12 I wanted to just follow up and clarify a few
13 things.

14 Mr. Thompson, in making the argument that
15 the companies who put the finish on the digital print
16 canvas are not domestic producers, you seem to be
17 basing that on the argument that all they do is put a
18 coating on. My understanding was that a number of
19 them also proceed to finish the product in some way
20 for retail: cut it or package it or do some other
21 things to it which would be the same things that other
22 converters might do. Is that correct or am
23 I misunderstanding the nature of their operation?

24 Do they just coat it and send it out the
25 door in the same roll that it came in on?

1 MR. I. BENATOR: Some of them just take our
2 product, convert it into smaller rolls, into cut
3 sheets, and sell it that way for certain types of
4 digital reproduction. Others will take it, put this
5 semi-finishing or this finished inkjet coating on it
6 and then sell it smaller rolls, sell it in bulk rolls
7 to publishers or printers, sell it in cut sheets,
8 however that market, however that end user wants to
9 prepare a finished artwork.

10 COMMISSIONER ARANOFF: So in your
11 post-hearing brief, Mr. Thompson, I know we've all
12 gone over this issue and I don't know if anyone has
13 specifically asked you to please go through the
14 factors that we use to assess whether somebody engages
15 in sufficient production-related activities, but when
16 you do so, and please do that, can you compare on each
17 of the factors these converters who are making the
18 digital print canvas to the converters who are
19 stretching and who you argue are engaged in sufficient
20 activity to be part of the industry, just so that we
21 can understand is there less value added, is there
22 less investment, are there fewer employees, each of
23 the factors so we can see the distinction that you're
24 trying to point out to us.

25 MR. THOMPSON: We certainly will. Yes.

1 COMMISSIONER ARANOFF: Thank you.

2 One other follow-up, I'm a little surprised,
3 based on all of the Tara witnesses' testimony this
4 morning, that the digital product now is made in
5 China, is making some inroads in the market and yet
6 the Respondents argue on pages 21 and 22 of their
7 brief, and some of this is bracketed, that there's
8 been a certain lack of interest amongst the companies
9 that are coating the digital product in this petition,
10 that they maybe don't think they face any competition
11 from China or just don't seem to be that interested in
12 participating in the case and I guess I'm asking can
13 you come up with any explanation for that?

14 MR. STRAQUADINE: Paul Straquadine. I would
15 venture a guess on that. In the false sense of
16 security of having a sales market where you're
17 experiencing 25, 30, 40 percent growth each year, and
18 if that is what you're seeing and you've not been
19 affected by product being dumped into your market and
20 it's been very similar to our reaction when Chinese
21 stretched artists' canvas first hit the U.S., our
22 reaction was, oh, it's not very good, the supply is
23 unstable, so maybe -- I would say there's a high
24 likelihood that people in the digital market have a
25 false sense of security right now, that they don't see

1 it as an imminent threat, that having been affected by
2 it we do see. It is coming in, it is happening.

3 MR. I. BENATOR: Michael Benator. I'd like
4 to add, too, that a lot of these companies are very
5 large coaters and canvas is a very small percentage of
6 their business. Their main products are papers and
7 photographic product and so the canvas side, they just
8 consider it just to be a trivial matter that's not
9 important at this time.

10 COMMISSIONER ARANOFF: Okay. Thanks.
11 That's very helpful.

12 MR. THOMPSON: Just to follow up on
13 Mr. Straquadine's comments, if I may?

14 Apparently, the imports that have occurred
15 are within the past year and appear to be -- they're
16 just at the incipient stage, so they may not have
17 generated the awareness among the rest of the -- well,
18 I'm not going to call it industry, because that kind
19 of assumes a conclusion, but among the rest of the
20 marketers of print canvas that has U.S. origin,
21 artists' canvas, as its basis. So it may just be that
22 Tara is a bit more farsighted than others who are in
23 that market.

24 COMMISSIONER ARANOFF: Okay. I appreciate
25 that. That's helpful.

1 Just a few things to make sure that you've
2 had the opportunity to respond to them.

3 On page 2-3 of the public version of the
4 pre-hearing staff report, it indicates that produces
5 in China have little unused capacity, limited
6 inventories on hand and suggests that producers in
7 China are likely to respond to changes in U.S. demand
8 with only very small changes in the volume of
9 shipments to the U.S. Do you agree with that
10 characterization?

11 MR. THOMPSON: No, we don't because the
12 questionnaire coverage from China is fairly sparse, so
13 we do not have -- the first problem is we do not have
14 a complete picture of what the Chinese capacity is.
15 It's a self-selected group. I think it's limited
16 to -- well, several companies, I don't know what's
17 BPI and what's not. And then the second is without
18 questioning necessarily the accuracy of the
19 information, projections are just that in terms of
20 where a product is going to be sold, so there may be
21 some self-serving attributes to the expectations in
22 the shipments to the U.S. in the future.

23 COMMISSIONER ARANOFF: Okay. Thanks.

24 The Respondents in their brief mentioned
25 that there is this textile agreement in effect with

1 China and that there is a quota that includes this
2 product within its considerably broader scope.

3 Is that going to impede the current levels
4 of imports or growth in imports of the artists' canvas
5 product in any way?

6 MR. THOMPSON: If I may, I think it falls to
7 the level of a frivolous argument. First, it's based
8 upon a characterization by the importers as to what
9 the subcategory 229 allocation for artists' canvas
10 will be and it may be the case, and we don't have any
11 backup from the Chinese government or anything
12 official on that, so that's their say so and that's a
13 fairly self-serving number; look at how import volumes
14 are going to decline under this.

15 What they don't tell you about the quota
16 program is that the allocation to the producers is
17 only the starting point, that there's a substantial
18 after market and auction market in China in which
19 exporters can buy quota and apply it to any product in
20 category 229. So what they've given you is, first of
21 all, unfounded based only upon what some unnamed
22 importers have heard and, second of all, does not
23 accurately at all describe the quota program.

24 We will be happy to address the legalities
25 of that program in the post-hearing, but I don't find

1 that to be a point of concern, let me put it that way.

2 COMMISSIONER ARANOFF: Okay. In your
3 post-hearing, when you look at this, if you could just
4 sort of lay out the argument of why you don't see this
5 as presenting any real limitation on the volume of
6 subject imports, that's what I'm trying to get at.

7 MR. THOMPSON: Will do.

8 COMMISSIONER ARANOFF: Thank you.

9 One final question. There was brief mention
10 earlier today about non-subject imports, particularly
11 mentioned were India and Vietnam. We don't have a lot
12 of information in our staff report right now or on the
13 record as far as I know about non-subject imports and
14 the role that they play in the market.

15 Is there anything that you want to add or
16 now or that you could add in your brief in terms of
17 pricing, quality, product range, how long these other
18 products have been in the market?

19 MR. THOMPSON: We'd be happy to. We'll have
20 to gather that information. Of course, Tara does keep
21 track of the import competition from India and we'll
22 be able to comment on all of those factors you
23 mentioned.

24 COMMISSIONER ARANOFF: Okay. Thank you very
25 much.

1 I want to thank the panel for all your help
2 this morning.

3 I have no further questions, Mr. Chairman.

4 COMMISSIONER ARANOFF: Thank you,
5 Commissioner.

6 CHAIRMAN KOPLAN: I do have one that I'd
7 just like to add and that is I know you've submitted
8 some data to us with regard to the difference in
9 hourly wages, I think, between your production in
10 Mexico and your production in the U.S.

11 Mr. Freeman, I think you had indicated in an
12 earlier round that if this determination goes
13 affirmative that some production would probably return
14 to the United States from Mexico. Was that you that
15 said that?

16 MR. FREEMAN: Yes, it was.

17 CHAIRMAN KOPLAN: Okay. Let me ask this
18 question. Could you all provide me with relevant data
19 that reflects the difference in labor costs on a per
20 unit basis for stretched canvas in Mexico in square
21 meters as compared to your U.S. production? Can I get
22 that?

23 MR. FREEMAN: Yes. Yes, we can do that.

24 CHAIRMAN KOPLAN: I appreciate that very
25 much and I'll get that from you, I guess, for the

1 post-hearing. Thank you.

2 With that, I have no further questions. I,
3 too, thank you for your testimony and I'll turn to
4 Vice Chairman Okun.

5 VICE CHAIRMAN OKUN: Thank you.

6 I think the odds and ends I had have now
7 been covered.

8 I did want to say, Mr. Cicherski, that
9 I appreciate you being here. I think it's important
10 to have the perspective of purchasers here and I
11 thought your testimony was very clear on the points
12 that you wanted to make, so I don't have any
13 additional questions for you, but I did want to make
14 sure you understood that it is important to be here
15 with the information you've provided and we appreciate
16 that.

17 With that, I have no other questions, but
18 I want to join my colleagues in thanking all of you
19 for the information you've provided this morning and
20 now this afternoon.

21 CHAIRMAN KOPLAN: Thank you.

22 Commissioner Lane?

23 COMMISSIONER LANE: I have nothing further.

24 CHAIRMAN KOPLAN: Thank you.

25 Commissioner Pearson?

1 COMMISSIONER PEARSON: Back to me so
2 quickly?

3 CHAIRMAN KOPLAN: So quickly, yes.

4 COMMISSIONER PEARSON: Earlier, the pricing
5 products were discussed and it was indicated that for
6 products 1 and 2 there have been price declines and
7 for 3 and 4 there have been increases.

8 As I understand the pricing products, 1 and
9 2 are side stapled products. Should we see the side
10 stapled products as behaving differently in the market
11 than has been the case for the back stapled or
12 splined?

13 Those of you involved in the marketplace,
14 are you seeing more price pressure on the side?

15 MR. STRAQUADINE: Yes. Yes, we are. And
16 quite often, the side stapled are the private labels
17 that are available out there. In reference to your
18 prior question about are the volumes of canvas going
19 to be changing, I would liken it to a flyer you may
20 receive in the mail that a particular hamburger
21 establishment is selling quarter pounders for three
22 for a dollar. It would be very likely that they're
23 going to have a large increase in sales versus a \$2
24 quarter pounder, that people will go out and be
25 motivated to buy those and so there will be a spike.

1 When the sale goes off or when a duty may be
2 imposed, then the quantity will be reduced slightly,
3 but the number of people who have tasted that quarter
4 pounder and the increased long term sales will have
5 already been in place.

6 COMMISSIONER PEARSON: There was mention
7 earlier of the effect in the marketplace following the
8 imposition of the preliminary duties. Could you say a
9 little bit more about that?

10 What do you see happening in the market now?
11 Is there some slow down of imports from China?

12 MR. STRAQUADINE: Immediately preceding the
13 November ruling, the numbers shot very, very high,
14 everyone trying to beat -- not circumvent, but just
15 get in before the duty was imposed, and then
16 quantities diminished drastically in December and
17 January and with this final hearing approaching, this
18 month, it has again shot up with the amount of import
19 from China. Even in the face of a 55, a 74 and a 264
20 percent duty, there were still a great number of
21 containers that arrived just this month.

22 COMMISSIONER PEARSON: Okay. So the market
23 may be able to absorb margins that are relatively
24 large, is what you're saying?

25 MR. STRAQUADINE: Yes. People who

1 previously had been making very large margins were
2 willing to sit it out and wait to find out what was
3 going to take place today and next month in order to
4 not change their supply and also to inflict possible
5 pain or damages on the U.S. market for even imposing
6 this.

7 COMMISSIONER PEARSON: Okay. Well, we spoke
8 earlier about the divergent trends for the shipments
9 of bulk canvas versus finished canvas. It's fair to
10 say without going into any detail that the bulk
11 shipments have risen over the period of review quite a
12 bit more than the finished shipments have declined,
13 and thus we would have a net increase overall in
14 shipments of the like product. I think we could say
15 it's relatively robust growth in shipments of the like
16 product.

17 You've testified to underselling and
18 certainly that's also shown in our record, but I'm
19 just trying to make sense of this record as a whole
20 that we have in front of us because we've got growth
21 in shipments, we've got some underselling, but yet we
22 have price increases for several of our pricing
23 products. We have a large increase in apparent
24 consumption. We have declining cost of goods sold on
25 a per square meter basis and we've got an industry

1 that fortunately still is making money.

2 So I look at all this and I'm having a hard
3 time reconciling what I might describe as a picture of
4 gloom and doom that you painted so effectively on the
5 canvas that we offered you here in your direct
6 testimony and I'm seeing less doom and gloom in the
7 record.

8 Am I missing something?

9 MR. I. BENATOR: Yes, I would strongly
10 disagree with that. The first question, you're saying
11 that the growth of the bulk shipments have increased
12 more than the decline in the assembled and from our
13 records that's far from the truth. If you take the
14 bulk increase, it's still much less than the assembled
15 and I would question some of the bulk numbers as far
16 as whether they're accurate from both a dollars and
17 from a square meter standpoint.

18 As far as the profitability, we can only
19 speak for Tara Materials and that we would have had
20 another loss in 2005 were it not for the digital print
21 canvas increase. Our margins have clearly dropped
22 significantly because of the imports of U.S.-Chinese
23 products and that it does not bode well for the
24 profitability of the artists' canvas market for Tara
25 Materials for the future.

1 COMMISSIONER PEARSON: Right, but let me
2 clarify. As you're presenting this petition, the
3 digital print product is part of the like product,
4 isn't it?

5 MR. I. BENATOR: That is correct.

6 COMMISSIONER PEARSON: Okay. So you're
7 saying you would have had a loss except for what you
8 made in one portion of the like product. I don't know
9 that we can be quite so artful as to divide it up that
10 way, unless, of course, you want to separate like
11 products and then we can talk about that.

12 MR. I. BENATOR: We're just trying to be
13 proactive and seeing that in the next 18 to 36 months
14 that those like products will definitely be injured.

15 MR. THOMPSON: Commissioner Pearson?

16 COMMISSIONER PEARSON: Please, Mr. Thompson.
17 Yes?

18 MR. THOMPSON: A couple of comments on that.
19 Keep in mind Tara hasn't seen the industry
20 wide data.

21 COMMISSIONER PEARSON: No, I understand.

22 MR. THOMPSON: So they're describing their
23 own experience.

24 COMMISSIONER PEARSON: Yes.

25 MR. THOMPSON: But the increase from their

1 perspective in bulk products is attributable to the
2 lower margin and lower value print canvas. While
3 there has been an increase in shipments because the
4 alternative for them was just to shutter their
5 production facility, fortunately, they found a market
6 segment where they have thus far not been exposed to
7 the Chinese competition to any great extent, but
8 that's a lower value product and that helps explain
9 the decline in the net sales value to square meter and
10 the cost of goods sold. The traditional stretched
11 canvas has higher costs, but also until the advent of
12 the Chinese imports had a higher margin than the print
13 canvas, so what Tara has done is seen its finished
14 canvas decline in shipments, it's seen a decline in
15 profitability, if you will, and has tried to make up
16 in part for that problem by shipping print canvas.

17 So the shipment numbers are a little bit
18 misleading in that sense in that they mask a change to
19 a lower value product by Tara, which is trying to keep
20 its production facilities doing something, because if
21 they stuck with the traditional artists' canvas, the
22 finished canvas, they'd be done. So you can see that
23 effect.

24 I would take issue with the idea that a
25 company or an industry that is still profitable is not

1 thereby being injured. Rather, the trend is toward a
2 profitable but much less so industry overall and in
3 terms of the underselling, yes, we have seen some
4 prices increase, but think about what the consequence
5 of that is for a company like Tara. They have the
6 choice of either cutting their price and covering less
7 of their costs or selling at a loss, perhaps, or
8 increasing their price and losing volume and in the
9 price comparisons that the commission has seen, it
10 reveals situations where Tara made both choices. In
11 some, they cut their prices and tried to maintain
12 volume, although I don't think that it worked, based
13 on my recollection of the numbers. In others, they
14 increased their prices, but lost share.

15 I think looking at the fact that their
16 prices have increased per se is not going to give an
17 ineluctable answer that, oh, they're not being harmed
18 by the imports.

19 COMMISSIONER PEARSON: Well, let me clarify
20 that I have great respect for the people managing
21 these companies because obviously it's a very dynamic
22 marketplace out there over the period of investigation
23 and staying one step ahead is no doubt taking a lot of
24 effort and creativity. I've been involved in business
25 both when businesses are making good money and when

1 they are not and, believe me, the former is better.

2 I just wanted to say, Mr. Thompson, your
3 point is well taken about the decrease in unit value
4 of cost of goods sold being related to change in
5 product mix. That had not occurred to me as I looked
6 at the numbers, but it's a perfect explanation.

7 The other thing I would say, though, if
8 I might have a minute, Mr. Chairman?

9 You made a big point about the bulk product
10 being of lower value. From the record, it looks to me
11 that, yes, it may well be lower value, but it also may
12 be more profitable and so having an increase in the
13 production and consumption of a lower value but more
14 profitable product is not exactly a bad thing for the
15 industry, based on what I can see in the record.

16 MR. THOMPSON: Well, today, it may be more
17 profitable, but at the time the Chinese imports began
18 their gathering mass in 2003, finished canvas was more
19 profitable.

20 COMMISSIONER PEARSON: Right. But you've
21 not really made a threat case here today that we
22 should be looking at this as a threat case on bulk for
23 what the Chinese might do in the future.

24 MR. THOMPSON: No, we haven't made the
25 argument on bulk alone as a threat case based on that.

1 We believe that all Chinese canvas which is within the
2 scope, if the commission does not find current
3 material injury, that it should find that the entire
4 industry is threatened with material injury. We have
5 not done a market segment analysis of the industry or
6 of the class or kind of imported merchandise, but part
7 of the consequences, when you talk about what are the
8 adverse consequences of the imports, you have the
9 volume which has largely replaced domestic finished
10 canvas. And, again, I'm not suggesting market
11 segmentation analysis, but we have a move from a
12 higher profit product to a bulk product that has much
13 lower margins and that has had lower value.

14 COMMISSIONER PEARSON: But it's not clear to
15 me at the moment that it has lower margins.

16 MR. THOMPSON: But the imports have caused
17 that shift because Tara has essentially had to retreat
18 from its once preeminent position in the finished
19 canvas industry and find something to do with its
20 productive capacity. Fortunately, there's the print
21 canvas, but if you looked at the situation in 2002 and
22 before the imports entered in a big way, when they
23 were merely a blip or a trickle, you would find that
24 Tara's profitability was higher because it was selling
25 a more profitable product, the finished artists'

1 canvas, at a higher price. That's where the price
2 effects have come. It's prevented Tara from
3 increasing its prices to cover the costs or it's
4 forced Tara to actually cut prices and that has had a
5 direct impact on the bottom line of the company and
6 the industry.

7 COMMISSIONER PEARSON: I don't think I'd
8 better impinge on my colleagues' time here any longer
9 or on anybody's lunch time, but let me just say in the
10 post-hearing, do what you can to help me understand
11 why the picture that you presented in the direct
12 testimony is more accurate than what I think we're
13 seeing in the record, which frankly is somewhat more
14 complicated than you might have indicated initially.

15 Mr. Chairman, I'd better stop. Thank you.
16 I have no further questions.

17 CHAIRMAN KOPLAN: I think you used your
18 minute.

19 Let me see if there are any other questions
20 from the dias?

21 (No response.)

22 CHAIRMAN KOPLAN: Seeing that there are
23 none, Ms. Mazur, does staff have questions of this
24 panel before I release them?

25 MS. MAZUR: Mr. Chairman, staff has no

1 questions.

2 CHAIRMAN KOPLAN: Thank you.

3 Mr. Gallas, do you have questions of this
4 panel before we release them?

5 MR. GALES: No, I don't.

6 CHAIRMAN KOPLAN: All right. Let me remind
7 you all that the room is not secure, so any business
8 proprietary information that you all have with you you
9 should take during the lunch break.

10 We'll come back and resume again at a
11 quarter to two.

12 (Whereupon, at 12:52 p.m., the hearing in
13 the above-entitled matter was recessed, to reconvene
14 at 1:47 p.m., this same day, Tuesday, March 28, 2006.)

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1 Contrary to what was stated by Tara, the
2 distributor sector that we represent is growing. What
3 I hope to do here is to explain my view of the nature
4 of the U.S. market, the context behind our company's
5 decision to import artists' canvas from China and the
6 events that led to Tara's termination MacPhersons as a
7 distributor of Tara's canvas.

8 First, the product. My direct experience
9 with artists' canvas is largely restricted to
10 stretched canvas, with only a small volume of canvas
11 panels. We do not import from China either bulk
12 canvas or digital print canvas. However, we do
13 represent U.S. vendors of digital print canvas and
14 expect this to be a growing part of our customer
15 sales. In fact, this is the fastest growing part of
16 this business.

17 Stretched canvas is a unique product
18 category in the art and craft business. In the early
19 days of my career, canvas was considered just one of
20 many categories within the typical art supply store,
21 one of the tools of the trade for professional artists
22 and serious art students.

23 Up until this time, on the production side,
24 the big dog in stretched canvas manufacturing was Tara
25 Materials and its Fredrix brand. The Benator family

1 took control of Tara in the mid 1980s, with a focus on
2 sales volume, production efficiencies and
3 profitability which allowed them to take market share.

4 Traditionally, most art supply stores
5 displayed canvas in custom built, cubby hole styled
6 cabinets much like library books designed to contain
7 the products in the smallest possible space. I'd like
8 to call your attention to Exhibit 1. You've got this
9 one in your packet.

10 This photograph reflects the fact that
11 formerly store display was directed to customers such
12 as professionals and serious art students who
13 generally knew what they wanted. There was little
14 attempt to market canvas to the casual users or
15 hobbyists or for non-traditional uses.

16 There was very little product or
17 merchandising innovation in canvas sales until the
18 early 1990s, when a California-based home decor retail
19 chain, Standard Brands Paint, created an art supply
20 specialty division called The Art Store where the two
21 managers decided to try something revolutionary.

22 They displayed canvas on shelves with the
23 surface side facing out, shown in the second
24 illustration.

25 Applying successful retailing principles,

1 The Art Store began to sell a range of canvas products
2 and quality offerings, meeting not only the needs of
3 professional artists, but also the needs of hobbyists.
4 For some reason, creative people are inspired when
5 they see rows of white surfaces.

6 The concept turned into a full blown program
7 with stunning results. Canvas sales rarely exceed 5
8 percent of a store's art supply sales. The magic that
9 these guys created resulted in their canvas sales
10 topping 15 percent of the entire store sales, while
11 generating additional sales of materials and
12 implements needed to cover the canvas.

13 I should add that The Art Store's program
14 was designed with American sourcing in mind and always
15 operated without imports.

16 Through the innovative marketing of painting
17 surfaces, a new generation of canvas consumers was
18 created who began demanding a broader array of canvas
19 styles, qualities and price points. Each of the
20 products that are displayed against the wall here --
21 and I'd welcome questions later on -- show unique
22 qualities that appeal to different type selecting
23 official customers.

24 Suddenly, consumers had access to such
25 painting surfaces as air brush, portrait, archival,

1 museum, home decor and more. Manufacturers on the
2 look out for new product lines suddenly had many more
3 selling options.

4 The result of all of this activity was an
5 explosion in the sales of all painting surfaces. Tara
6 has explained this phenomenon as a fad. MacPhersons
7 saw this as a major trend in the canvas market. As a
8 distributor, our company mission is to focus on
9 helping our retailers achieve success. In short,
10 growing our customers' business is our top priority.

11 This background is important in
12 understanding the MacPhersons' strategy to position
13 itself in the U.S. canvas market and its relationship
14 with Tara. For over 25 years, we were a loyal
15 customer of Tara. We paid our bills on time, we
16 constantly promoted their products, we jumped on new
17 items, and we gave them large orders.

18 Our decision to import canvas from China was
19 never meant to displace Tara or our other domestic
20 supplier, Masterpiece. The Art Store's experience
21 demonstrated to me that there was a potential to turn
22 around years of sales declines in the art materials
23 sales. Not just ours, but in the retail stores.

24 Building up on the merchandising concept of
25 The Art Stores, by 2000, we at MacPhersons discovered

1 that Chinese canvas could meet the needs of this
2 growing market with respect to the inherent value
3 afforded us by the price value balance that appeals to
4 new customers that was fueling this growing trend.

5 Artists' canvas today is not just used as a
6 printable surface, but is also used as a medium for
7 home decor, which is the fastest growing market for
8 artists' canvas.

9 This price quality differential is
10 illustrated in Tara's independent evaluation of the
11 marketplace completed in July 2001 which states
12 clearly that in all respects Tara canvas is superior
13 to canvas imported from China. I believe the study
14 was submitted on the record and in our brief.
15 MacPhersons' designed a plan to highlight and build on
16 the power of a complete and varied selection of canvas
17 painting products as a complement to Chinese source
18 canvas we felt that much of the high end and specialty
19 ranges should still be provided by U.S. suppliers.

20 From the outset, we were very open about our
21 plans for this program with our two domestic
22 suppliers, Tara and Masterpiece. We saw our new
23 product offering as a fresh way for our retail
24 customers to grow their business while at the same
25 time promoting the value and quality of U.S. made

1 brands.

2 We continually coached our sales force in
3 the nuances of this vision and never would we
4 encourage customers to reduce, eliminate or replace
5 Tara or Masterpiece with MacPhersons' art alternatives
6 brand of China canvas, nor would we allow our sales
7 force to do so.

8 Our view, expressed continually to our
9 customers, was the more styles, varieties, shapes and
10 brands that you display the more you will sell.

11 Our customers bought into the concept big
12 time. As proof, we often sold Tara, Masterpiece and
13 art alternatives all on the shipment.

14 I had made a concerted effort to partner
15 with Tara to increase our retail customer sales volume
16 of artists' canvas. In 1990, at the hobby industry
17 convention, I approached the senior management team at
18 Tara to share the story of The Art Store's canvas
19 program and to try to develop ways that MacPhersons
20 and Tara could together develop a program from which
21 our customers could benefit.

22 Potentially, the payoff for Tara was about a
23 five-fold increase in sales from the industry average
24 of about 3 percent of a store's sales in canvas to The
25 Art Store's percent of the store in canvas.

1 However, we were unsuccessful in persuading
2 Tara management that this new marketing approach
3 presented a dramatic opportunity. This was because
4 their approach up until then largely was we are the
5 foremost name brand of canvas and people buy our
6 product period.

7 Nevertheless, when we began selling our own
8 line in 2001 we continued to support Tara.
9 Astonishingly, and despite repeated supportive letters
10 to MacPhersons, Tara lashed out and at the end of 2003
11 fired us on only 24 hours notice after years of loyal
12 service, all of this in an overnight letter on
13 December 29th.

14 Tara claims that the termination was the
15 result of declining sales. However, the largest part
16 of the decrease was due to Tara's increased direct
17 sales to customers who had previously bought Tara
18 products through MacPhersons.

19 We still wonder how dropping us could
20 improve Tara's standing with its customers. We are
21 serving a segment of the market that Tara concedes
22 they did not serve.

23 In the first half of 2004, our sales on
24 imported canvas decreased dramatically after Tara
25 dropped us, primarily because importing was the only

1 viable way for us to make up the revenue triggered by
2 Tara's dismissal.

3 When Tara fired us in 2003, our canvas
4 purchases from them were nearly a million and a half
5 dollars. Many of our loyal customers, some of whom
6 were buying Tara's canvas from us and others who were
7 buying direct from Tara, were so outraged by Tara's
8 action that they were willing to examine any option to
9 replace or diminish Tara's place in their stores.

10 In hindsight, Tara's strategy appears clear.
11 It is my belief that virtually all the stretched
12 canvas product that Tara shipped to our Reno, Nevada
13 warehouse was made in Mexico. Interestingly, while
14 Tara has complained about the devastating impact of
15 low priced canvas from China over the last three years
16 it has increased its own prices like clockwork every
17 January 1st from 2002 to 2005, doing this at a time
18 when presumably its costs were declining as a result
19 of losing increased volumes of canvas production to
20 Mexico.

21 There's a price list, a 2005 price list, in
22 the packet that you could take a look at. I'd like to
23 call your attention specifically to their device for
24 indicating to a customer if a price has increased.
25 I think you'll see in the list there's a little up

1 arrow for every item that's increased. I defy you to
2 find an item that doesn't have an up arrow in their
3 price list. And the top selling item that they've
4 described as seven ounce canvas on the first page,
5 Fredrix Red Label Canvas, is made with seven ounce
6 canvas, the best seller, and it's showing an increase.

7 After Tara dropped us, we increased our
8 selection of purchases from U.S. producer Masterpiece
9 Artists' Canvas. One of the few remaining regional
10 producers of canvas, Masterpiece is located in
11 San Francisco in perhaps the most expensive labor and
12 commercial real estate market in the U.S.

13 The fact that we replaced Tara's significant
14 role in canvas marketing with similarly high priced
15 products from U.S. producer Masterpiece underscores an
16 important characteristic of the U.S. artists' canvas
17 market. Customers seek the broadest possible
18 assortment of products and price points.

19 As I discussed previously, hobby quality
20 products at the appropriate price point are just as
21 important as premium quality and specialty products.

22 Just to give you an idea of the market
23 perception of Tara, since the filing of this case,
24 Tara's image has gone from one of being thought of by
25 retailers as a quiet pillar of the retail art market

1 to something quite different. Actually, retailers
2 gave little thought to Tara and their Fredrix line,
3 assuming that their quality was high and that their
4 marketing and branding was adequate.

5 The high profile antidumping action has
6 caused many retailers to take a closer look at the
7 inconsistencies in Tara's quality and the shortcomings
8 of its marketing and customer support.

9 Given Tara's shift to Mexico, I've even
10 heard some retailers remark that Tara's marketing
11 theme of Buy American is hypocritical.

12 How dangerous and threatening was
13 MacPhersons' decision to offer a promotional canvas
14 line?

15 I refer to our exhibit in the handout that
16 shows the front cover of a guide that we print that's
17 called The Pocket PRicer and it was dated the year
18 2001, when we first introduced the promotional canvas
19 line from China. You will notice that I've
20 highlighted the items that we brought in and actually
21 those items remained static. We did not increase
22 selection of these products until after we were fired.

23 If you count those up, there's 23 of those.
24 Then on the next two pages, you'll see from the same
25 book our selection of Tara products and items

1 highlighted in pink are those items that we stocked
2 and carried from Tara at that same moment. There are
3 230 of those items.

4 So 230 versus 23, that's 10 times more Tara
5 product that we were offering at that time and offered
6 continuously up to the moment that we were fired.

7 It's hard for me to understand how this
8 could be construed as targeting Tara.

9 For us, price was and is important because
10 it has allowed us to offer additional enhancements to
11 product promotions and presentations as well as price
12 to our retailers. It's all about value.

13 Let me make one additional observation about
14 the retail art supply world. Even the smallest stores
15 carry thousands of different products made by hundreds
16 of manufacturers. Each of these suppliers has
17 minimums for both individual products and for the
18 total order. Ordering directly from suppliers like
19 Tara generally offers s store better pricing, but yet
20 requires significantly more storage space and
21 inventory management.

22 This is because Tara has a relatively narrow
23 range of art supply products. Since distributors like
24 MacPhersons offer a full basket of art supplies from a
25 nearby warehouse, our customers can purchase fewer

1 canvases more frequently and still receive free
2 freight. This is a cost savings to them that is not
3 related to the differences in prices of the canvas,
4 but in the product range offered. This factor is
5 particularly important for smaller retailers due to
6 the high cost of shipping.

7 The combination of Tara's inflexible
8 policies and cutting us off has isolated them from an
9 important customer base. This is in contrast to
10 MacPhersons' quick response just in time system that
11 keeps the small, independently owned store customers
12 satisfied with better in stocks, while strengthening
13 their critical cash flows.

14 I'd like to read an excerpt from a letter
15 addressed to Michael Benator, copied to me, in January
16 of 2004 that illustrates this point. The writer is a
17 retailer in Kansas City. It reads:

18 "I was told that your objection with
19 MacPhersons has been that you feel that they are
20 essentially competition to you by selling their less
21 expansive canvas. I do carry their cheaper canvas
22 next to your canvas, but it hasn't seemed to interfere
23 with sales of Fredrix's canvas. The students and
24 professional artists who want to work on inferior
25 canvas choose the MacPhersons' brand of canvas rather

1 than going to my competition to buy it and those who
2 recognize quality purchase your products from us. If
3 anything, our Fredrix canvas sales have increased with
4 the infusion of MacPhersons' brand because people
5 actually buy both. Do I really want to pay huge
6 freight bills from Fredrix relating to my canvas
7 consumption? Or is it time to start looking for a
8 different brand of canvas to replace my Fredrix brand?
9 I'm honestly perplexed. With that in mind, I ask
10 respectfully that you reconsider your decision
11 concerning MacPhersons as a distributor of your
12 products. Sincerely, Penny A. Cullers, Kansas State
13 Student Union Bookstore."

14 Finally, we are finding that there is not
15 enough textile visa available, which was discussed
16 before and I hope you'll ask about that because we
17 have direct experience on this, from our primary
18 supplier, the largest in China, to cover even 11
19 percent of the demand of its U.S. customers.

20 This effectively rules China out as a canvas
21 source all together. The only product that we will
22 consider ordering from China in the future is canvas
23 board and Tara has proven beyond any doubt that they
24 can produce these items cheaper than anyone in the
25 world.

1 There is no need for a dumping case when the
2 textile quotas effectively embargo artists' canvas.

3 Thank you.

4 MR. MAREK: Good afternoon, Chairman Koplun
5 and members of the commission. My name is Alan Marek
6 and I am the Director of Importing for Michael's,
7 which includes artists' canvas as well as other arts
8 and crafts materials.

9 Michael's is a unique arts and crafts
10 retailer serving over 800 communities throughout the
11 United States and employing in excess of 38,000
12 Americans.

13 As a retailer for arts and crafts and the
14 hobbyists to professional artists, our line of
15 products includes a wide range of artists' canvas.

16 It is my understanding that we are the
17 single largest purchaser of artists' canvas from Tara
18 and this continues to be the case even after our
19 purchases of canvas from China.

20 During the preliminary conference,
21 I appeared before the staff and testified concerning
22 three issues which I will now review for the
23 commission while providing updated information.

24 First, my role in procuring artists' canvas
25 from China and the reasons for buying.

1 Second, our artists' canvas made in China
2 fits into our retail sales strategy in relation to our
3 purchases and sales of Tara made canvas.

4 Third, the role of price in the market both
5 for our purchases and sales at retail.

6 My chief responsibility for Michael's
7 remains to identify production capability for arts and
8 crafts materials that are consistent with our retail
9 philosophy. This involves attending trade fairs to
10 first identify such product and manufacturers.

11 When I identify a potential product for
12 Michael's, I then visit the factory. We are a large
13 enough buyer to allow us to buy directly from the
14 manufacturer and this gives us more control over the
15 quality of the product and packaging.

16 My first encounter with Chinese canvas was
17 at the Canton fair in late 2002. I saw canvas from at
18 least five suppliers. Several of these suppliers were
19 showing Phoenix produced canvas in their booth, so
20 Phoenix appeared to be a major and reputable
21 manufacturer.

22 I then arranged a visit to their factory in
23 China because I needed to ensure that our source of
24 supply has the capability to meet Michael's
25 requirements regarding quality and volume.

1 Buying direct from the factory gives us more
2 control over the product itself. We can provide our
3 specifications to the manufacturer, changes to the
4 product can be made if necessary, and then we drive
5 the packaging aesthetics and marketing.

6 How the product is presented on the shelves
7 to our customers has a direct impact on retail sales
8 so control at the manufacturing stage is important to
9 us.

10 Ultimately, we contract direct production
11 that provides us with more flexibility and control
12 than we otherwise would have were we to purchase
13 exclusively from Tara. This allows us to offer a
14 differentiated product to our customers.

15 I believe Paul Straquadine opined that
16 Chinese makers simply copied Tara's product. This
17 simply is not true. We beefed up the stretcher bars
18 on the product, triple gessoed or coated the product,
19 and designed our own selling label.

20 Once we were satisfied that Phoenix could
21 meet our requirements, we decided to import from
22 China. Our chases from China were for three SKUs, two
23 different 16 by 20 and an 18 by 24 side stapled
24 canvas.

25 We still carry approximately 15 times the

1 number of Tara stretched canvas SKUs versus stretched
2 canvas SKUs imported from China.

3 These canvases have been very successful
4 with our Michael's shoppers who seek quality products
5 at attractive prices. As demand for canvas has grown
6 significantly, so, too, has demand grown for related
7 art products.

8 If Tara claims price is the only factor
9 driving a purchase decision, Michael's would sell only
10 the lowest priced canvas available to us, whatever the
11 source, yet this is not the case.

12 Michael's continues to sell Tara's Red Label
13 and Creative Edge Canvas side by side with our canvas
14 imports from China. Some customers buy only Tara
15 canvas, some buy only our imports, and some customers
16 buy both.

17 Michael's has experienced significant sales
18 growth by offering and promoting our imported Chinese
19 canvas at attractive price points, appealing to its
20 growing diverse canvas customer base of hobbyists,
21 do-it-yourself home decorators, and school projects.
22 Thus, most of of the increase of our sales are -- that
23 might otherwise have been made at higher price points.

24 In other words, much of our import volume
25 did not displace Tara's Red Label or create alleged

1 sales but, in fact, were additional sales for a
2 widening customer base for artists' canvas. We think
3 it is important to understand that while Tara may
4 claim that their business with Michaels has decreased
5 during 2004, Michaels implemented an automatic
6 replenishment inventory management system which
7 reduced purchases and inventories. Nevertheless, it
8 is my understanding that Michaels will continue to be
9 a major purchaser of domestic canvas even as we
10 continue importation of artists' canvas from China.

11 Indeed, Tara continues to be our major
12 source of supply for canvas. Considering together the
13 Tara and Chinese canvas offerings on our shelves,
14 Michaels sold a sizably increased volume of total
15 artists' canvas units by percentage in 2005 and will
16 do so in 2006, based on our preliminary projections.
17 These projections are tempered only by the recently
18 imposed technical safeguard quotas on canvas, which
19 causes great concern. These finite limits will cover
20 only a fraction of what we sold last year.

21 At this rate, the quota constraints on
22 canvas imports have effectively created a barrier to
23 our future ability to obtain sufficient supply from
24 our Chinese sources; and, in effect, have rendered
25 moot the impact of any dumping case. To our mind, the

1 quotas already have provided an unwelcome embargo that
2 could threaten our ability to meet the growing needs
3 of our Michaels' customer base. In fact, we have been
4 told by our Chinese supplier that all their quota
5 allocation has been used up with only a small
6 distribution remaining.

7 Thank you.

8 MR. KANTER: Good afternoon, Chairman Koplan
9 and Members of the Committee. My name is Harvey
10 Kanter and I am President of Aaron Brothers, a
11 subsidiary of Michaels stores. Aaron Brothers is a
12 specialty frame and art store with locations in eleven
13 states, including Maryland and Virginia.

14 Our major market is in California and the
15 West Coast. Aaron Brothers now, almost exclusively,
16 sells canvas under its own private label. As we
17 develop our retail concept into a consumer-lifestyle
18 brand, rather than a reseller of a manufacturer's
19 label, our art supply assortments are dedicated
20 exclusively to the hobbyist and enthusiast artist,
21 including the student, not the professional artist;
22 and, as such, our canvas product variety is broad and
23 consists primarily of good and better, not best, art
24 supplies.

25 In 2003, as we sensed the growing demand for

1 different styles and shapes of canvas, we wanted to
2 implement a new strategy to help us make the most of
3 the opportunity at hand. We also believe that
4 developing the Aaron Brothers brand would substantiate
5 our lifestyle positioning in the marketplace and
6 specifically in support of the product opportunity.
7 We looked to Tara to help us meet this private-label
8 process through Aaron Brothers' strategy on three
9 specific levels, none of which were addressed to our
10 satisfaction.

11 First, we wanted to provide an expanded and
12 innovative array of products to a new breed of
13 customers, including home decor enthusiasts, soccer
14 moms, young students and amateur artists. These are
15 customers who are inspired to use the expanded
16 offering of canvasses for personal creativity to
17 decorate their homes, do projects, scrapbooking and
18 the like.

19 The array of specific products offered,
20 first in the marketplace by us in a dominant way, was
21 significant. They were offered under our own label,
22 which we believed would help drive the Aaron Brothers'
23 brand and continue to drive our positioning in the
24 marketplace. Aaron Brothers' brand growth continues
25 to be spurred on by the interest in the home decor

1 sector supported by canvasses broader array and appeal
2 of offering.

3 Second, we needed to insure that, by
4 introducing these products, we would not sacrifice
5 quality. And, third, the products to be presented
6 would require a broader array, attractive enough to
7 drive trial by new customers, and realizing a broader
8 offer was required for the consumer to try canvas
9 rather than using poster board, paper, or other less
10 sophisticated media for their art projects.

11 Again, to develop the Aaron Brothers' brand,
12 we believed we would need new customers to try us and
13 to compel new customers to try this avenue for self-
14 expression in home decor; and this, again, would drive
15 our unique positioning in the marketplace as well as
16 growing the canvas category in total. On all these
17 fronts, our efforts with Tara fell through. Tara
18 simply refused to recognize the evolving marketplace
19 and consumer needs, and the inherent sales-volume
20 growth, and was unable to meet the consumers' needs
21 for new products across an array of price points.

22 To be blunt, it would be fair to say that
23 they did not support Aaron Brothers' merchandising
24 strategy as defined as a private label brand of
25 strategy supported by product, price, promotion and

1 presentation strategies which was needed to address
2 the changing and evolving consumer. Also, Tara's lack
3 of consistent quality became an increasing concern for
4 us as we sought to move our quality and offerings to
5 drive our position in the marketplace.

6 As in most any business, it is crucial that
7 the quality level meet the level for a particular
8 product. In other words, customers don't want to pay
9 Mercedes prices for Volkswagen quality, particularly
10 if that quality is not dependable. While purchasing
11 canvas from Tara around this time, we began noticing
12 incidents related to unsatisfactory quality.
13 Customers complained to us about Tara-produced
14 canvases purchased in our stores. We witnessed
15 specific instances of warped canvases, twisted and
16 bent stretcher bars and experienced problems with
17 mislabeled canvases, reflecting the wrong size or an
18 incorrect brand.

19 The source of our frustration with Tara's
20 quality during the last years that we did business
21 with them, specifically 2002 through 2004, may be the
22 fact that Tara began supplying our spined canvas from
23 our facility in New Mexico as opposed to either of the
24 two-sided, or stabled-back-t-canvas. It appears that
25 by moving their spine production to Mexico, Tara

1 gambled on quality, and, as Mr. Friedman testified
2 earlier today, there was a learning curve to be
3 experienced in the move to Mexico.

4 Such a learning curve is attributable to a
5 move and is not uncommon. Yet, it is unlikely, if it
6 is sustained, that it will help a business such as
7 ours continue to grow. Still, wanting to implement
8 our strategy, we have been unable to rely on Tara to
9 join us in this opportunity. Due to the concerns that
10 I mentioned, we had to find an alternative means to
11 get spined canvas into our stores.

12 Since spined canvas was now only offered by
13 Tara from its Mexico facility, our alternative options
14 were limited. There was no U. S. production of spined
15 canvas in 2003 and we decided to give China a look.
16 We discovered that the Chinese supplier, specifically
17 the one that Alan mentioned, was willing and able to
18 meet our first two requirements: diverse product
19 lines, the right-price value equation. And the key
20 question was: whether they were able to meet our
21 quality requirements. This was a comprehensive and
22 affirmative: Yes.

23 Since then, we moved the majority of our
24 canvas program to our Chinese supplier. Quality has
25 been consistently good. In fact, we rely on an

1 internationally recognized testing lab to test the
2 quality of our Chinese canvas regularly and it meets
3 all of our specifications. In addition, the fill rate
4 has almost been perfect.

5 It is interesting to note that since the
6 time that we sourced originally from Tara, through the
7 time now sourcing overseas, that we have actually not
8 changed our promotional plan. Aaron Brothers has
9 neither increased or decreased its promotion, and,
10 typically, we only promote twice year, in ten weeks
11 out of 52, or 42 weeks at regular price. This has
12 actually been a promotion-in-place for over 30 years:
13 It is our annual one-cent frame sale.

14 The point on fill rate requires one further
15 comment. Unfortunately, we have been unable to meet
16 our fill rate from China in 2006 and the foreseeable
17 future. This is because we believe the textile
18 category 229 quota will impact our business as it
19 already has.

20 Chinese canvas, since January, has already
21 been completely used up by the supplier Alan
22 mentioned. Events, such as our back-to-school event,
23 will now be compromised by quota resurgence. In
24 total, our \$4.5 million-dollar canvas business is now
25 very much in jeopardy; and, in the near future, we

1 expect a suffering of profits as well as sales.

2 Lastly, as a side note, I would like to say
3 a few words about the importance of the growth in the
4 digital print-canvas business. This is the fastest
5 growing subset of our canvas sales, and it only
6 underlines the continuing growth of the overall larger
7 canvas category. For Aaron Brothers, we are in our
8 fifth year of continued growth; and, most recently, in
9 the last 24 months, it has accelerated. Our move into
10 China has been irrelevant in this growth in our
11 business.

12 Thank you very much.

13 Mr. KLETT: Good afternoon, Mr. Chairman and
14 Members of the Commission, my name is Daniel Kilett.
15 I am an economist with Capital Trade Incorporated.

16 There are four points that I want to make on
17 causation: First, a large percentage of subject
18 imports are stretched-artists' canvas, while a large
19 percentage of U. S.-production of artists' canvas is
20 not stretched. Even within the stretched-artists'
21 canvas category, there is significant product
22 differentiation. Also, U. S. producers export
23 artists' canvas. For these reasons, a large share of
24 U. S. production does not even compete with subject
25 imports.

1 Second, you don't have actual profitability
2 data broken out between bulk rolls in the subject
3 canvas, and you don't have actual price data for U. S.
4 producers broken out for retail and distributor
5 customers as you had requested, for reasons explained
6 in our brief. Petitioners know this, or they should
7 know this, and for them to attempt to draw
8 distinctions in pricing or profitability on this basis
9 to support their affirmative causation argument is
10 flawed analysis.

11 Third, with respect to volume effects, you
12 have heard testimony that artists' canvas imported
13 from China created additional U. S. demand. In fact,
14 many purchasers reported that artists' canvas from
15 China enabled them to sell more canvas even as they
16 continued to sell U. S.-produced canvas. Your own
17 Staff found aggregate U. S. demand to be relatively
18 elastic in the range of two to four, consistent with
19 what you have heard about the availability of canvas
20 at lower prices generating additional demand from
21 casual users.

22 Fourth: Tara's Mexican operations. Tara had
23 a manufacturing presence in Mexico well before imports
24 from China were a significant factor in the U. S.
25 market. Based on Census data, the first year of

1 importation from Mexico was in 1997, at least four
2 years before China had any meaningful presence in the
3 U. S. market.

4 Please look in my exhibit: Capital Trade
5 Exhibit 1, which is a graph reflecting artists' canvas
6 imports from Mexico from 1999 to 2005. The growth in
7 imports from Mexico was greater from 1999 to 2002 when
8 imports from China were small than from 2002 to 2005.
9 These trends reflect the fact that there were, and
10 continue to be, clear financial advantages to
11 producing stretched-artists' canvas in Mexico as well
12 as freight advantages for serving West Coast
13 customers.

14 Tara's behavior before China was a factor in
15 the market, and the comparative economics, especially
16 given NAFTA, indicates to me that this shift was
17 inevitable. Tara's position that import competition
18 was the only reason for the production-location shift
19 is just not credible.

20 Finally, there is one point that I want to
21 make that goes to the heart of your analysis. You
22 heard today from Tara, and from our clients, primarily
23 about U. S.-stretched canvas and imported-stretched
24 canvas; however, Petitioner defined the scope more
25 broadly, and the U. S. industry includes all U. S.

1 producers of the like product. Industry condition and
2 causation must relate to the industry as a whole on
3 this basis, not just for stretched canvas. These
4 other products include: bulk rolls, canvas panels, and
5 digital-print canvas.

6 I have some samples of digital-print canvas.
7 I will hold these up and then I can pass them around.
8 This is a digital-print photograph of a street scene
9 in Paris. I think they cropped out the burning
10 Peugeot. We sent this digital picture to David
11 Adamson Editions, an art dealer and publisher. First
12 of all, this is a blank piece of digital-print canvas.
13 This firm then digitally transferred the photo to the
14 digital-print canvas.

15 By the way, this digital-print canvas has a
16 receptor coat, as we have discussed and as was
17 discussed this morning. Also, on this picture, you
18 can see that there is some white space around the
19 outside which will enable it to be stretched and
20 framed if the consumer wants to do so.

21 As you have heard, this is a fast-growing
22 part of the artists' canvas market and we can pass
23 these up too. The reason I show this product is the
24 Petitioner asserts that U. S. companies that produce
25 digital-print canvas are not part of the U. S.

1 industry because their value-added is minimal.
2 However, they provide no factual support even though
3 you have value-added data for some digital-print
4 producers in the record, which Petitioner completely
5 ignores, and we have calculations in our pre-hearing
6 brief on the value added.

7 These data show that U. S. digital-print
8 converters are U. S. producers based on criteria that
9 you have applied in other investigations. In
10 addition, in other investigations where you have
11 considered whether to include or exclude converters or
12 fabricators, there have existed both integrated
13 producers and converters of the like product. So, if
14 you had excluded the converters, there would still
15 have existed producers of the like product, that being
16 the integrated producers. In this case, you heard
17 testimony this morning from Tara that it does not
18 itself produce the inkjet canvas.

19 If you have no integrated producers of
20 inkjet canvas, by default, you must include the
21 converters as the U. S. industry because that is the
22 only industry that you have. I submit that you need
23 not even get into the value-added analysis for whether
24 U. S. producers of digital-print canvas is in the
25 industry for that reason.

1 Based on information available to us through
2 your latest day-peel release last week, there appears
3 to be a significant gap in the Commission's data
4 recording coverage of the U. S. industry. It is my
5 understanding that the 95-percent industry coverage
6 reported in your Staff Report uses the universal firms
7 identified in the petition which completely ignores U.
8 S. producers of digital-print canvas. And with the
9 complete absence of responses from a number of these
10 producers, I don't see how you can know what is your
11 U. S. industry coverage represented by the
12 questionnaires that you do have.

13 Normally, when you have a relatively high
14 coverage of the U. S. industry, you can be reasonably
15 assured that the results are representative of the
16 industry as a whole even if you don't have data for
17 all the producers. The situation in this
18 investigation is different. Look at the most recent
19 questionnaires you have received and how their data
20 affected the U. S. industry's performance indicators
21 in the aggregate. To the extent data for U. S.
22 producers are absent, you cannot be confident that the
23 aggregation you now have is representative of the
24 condition of the U. S. industry as a whole.

25 Thank you.

1 MR. DOWERS: Good afternoon, Mr. Chairman
2 and Members of the Commission, my name is John Dowers.
3 I was the President and Chief Executive Officer of
4 Utrecht Art Supplies for over three years, serving
5 from November 2002 until January 2006, just about two
6 months ago. I am now on the Board of Directors of
7 Utrecht and have taken a position at another company
8 within the investment group that owns Utrecht.

9 We are a small to mid-size retailer with 35
10 stores around the country. Utrecht is located in
11 Cranberry, New Jersey near Princeton. It was founded
12 in 1949 as a premier supplier of the world's finest
13 artists' linens and canvas. We are highly dedicated
14 to serving professional and student artists. We are
15 not a direct importer of canvas but rather purchase
16 the product as a retailer through various vendors.

17 As such, we feel that we may have a more
18 impartial and independent perspective on what has
19 transpired with regard to the U. S. market in this
20 case. For decades, until May 2004, one of our key
21 vendors was Tara. I am here to tell you how the end
22 of the relationship with Tara was sympathetic of
23 Tara's complacency with regard to both customer-
24 quality needs and shifting market trends.

25 As I will discuss, these issues began to

1 fester in 2003 at about the time we believe that Tara
2 began shipping a large quantity of its canvas made at
3 their Mexican facility to our warehouse on the East
4 Coast. As such, Tara's problems clearly predated any
5 significant imports of China. In fact, they may have
6 directly sparked an increase in imports as customers
7 looked elsewhere for supplies.

8 Unlike Tara's product, the level of quality
9 of the imports matched the price points at which they
10 were offered. Between 2003 and 2004, Utrecht became
11 increasingly troubled by Tara's declining quality with
12 respect to their product line and service. I should
13 however yield that Tara was making products for us, so
14 it had the Utrecht label on it.

15 During that time, we received an unusually
16 high number of documented consumer complaints
17 regarding Tara's products, specifically the complaints
18 noted: poorly constructed canvas panels, partially
19 primed rolls of canvas, as well as mislabeled goods
20 that were sent in original sealed factory cartons to
21 the Utrecht warehouse.

22 We also received a call from an experienced
23 artist who complained that their finished oil painting
24 was experiencing adhesion problems on the Tara canvas
25 branded Utrecht. As this disturbing pattern

1 continued, we felt it necessary to negotiate an
2 agreement with Tara whereby Tara would extend damage
3 allowance, half a percent, to Utrecht. This allowance
4 was intended to address all the quality inconveniences
5 on Utrecht's private label program and the branded
6 goods that it was purchasing from Tara.

7 After agreeing earlier, however Tara
8 suddenly announced to us in October 2003 that it would
9 no longer honor this damage-allowance agreement,
10 opting instead to rely on a senior quality director in
11 its warehouse with the hopes that he could eliminate
12 unacceptable merchandise that was making its way to
13 our warehouse and its customers. Despite this new
14 appointment, Tara's problems continued.

15 Finally, in December 2003, after continued
16 frustrations triggered by Tara's non-responsiveness
17 and our belief that the Utrecht brand was not getting
18 the attention that it deserved, I requested a meeting
19 with Tara's president, Michael Benator, and gave him a
20 detailed agenda of the issues of concern and plans for
21 working to grow our respective businesses.

22 In January 2004, we met with Mr. Benator and
23 Paul Straguadine in our facilities in New Jersey. The
24 meeting only further reinforced our impression that
25 Tara was taking Utrecht's business for granted. Not

1 only did Tara barely address the quality concerns
2 outlined in the agenda and raised by us at the
3 meeting, but unexpectedly chose the occasion to
4 announce an increase in the hurdles to achieve our
5 annual-volume incentive. There were oftentimes
6 rebates that occur with certain incentives.

7 I would also like to note, too, that about
8 \$42,000 has been documented that was returned to us
9 for credit for some of the product that was damaged.
10 That would equate to on sales of a little bit under
11 \$1.6 million, or about a four percent total, which is
12 not a very acceptable rate.

13 The other thing that we sort of mentioned in
14 the course of that meeting is that we had felt -- and
15 I had been in that position for a little over a year
16 plus. We had a new buyer and, at that point nobody
17 from Tara had been to our facilities. They hadn't
18 come to meet me, they had not gone out of the way to
19 meet a customer that they were doing about a \$1.5
20 million with, so we had to actively promote this
21 meeting. In fact, the feeling was fairly deep that we
22 said it was like a marriage where one of the spouses
23 had chosen to move out and separate but hadn't told
24 the other spouse.

25 Apparently, they had accord because the next

1 day they sent us flowers and chocolates and told us
2 that they apologized after the meeting. Under the
3 circumstances, this was truly more than we could
4 accept. After careful deliberation, on May 26, 2004
5 in a face-to-face meeting, I informed Mike Benator
6 that we would no longer source from Tara.
7 Consequently, we choose to move our private label, our
8 Utrecht stretched-canvas lines and stretcher bar
9 business to both a domestic and a foreign producer who
10 we considered better vendors.

11 Tara's alienation of Utrecht came at a
12 peculiar time given the invigorating transformation
13 that the industry was experiencing and that Frank
14 described in detail. In recent years, our industry
15 has diversified and grown significantly. There are
16 new products and a wider array of choices available to
17 increasingly more sophisticated consumers. In our
18 stores, we have seen nearly a doubling of increased in
19 the number of product offerings. A few years ago, we
20 carried about 50 sizes of canvas and now we currently
21 offer 100 plus.

22 This revolution within the industry has also
23 produced solid revenue growth. Within the past fiscal
24 year, we have seen a 33-percent increase in unit value
25 and a 45-percent increase in retail dollars.

1 Interestingly, the majority of this growth has
2 occurred in the high-end domestically manufactured
3 product. We began a relationship with Kansas-City-
4 based Signature Canvas after we parted ways with Tara.
5 This is clearly an outgrowth of the industry's ability
6 to promote new and different canvas shapes, sizes,
7 depths, and to better communicate these exciting
8 offerings to the consumer. Consistency of quality
9 could also be cited for this growth.

10 Tara's inadequate response to consumers'
11 quality concerns came precisely at a time when
12 Tara should have gone above and beyond to bring
13 customers around and establish reliability and trust
14 in its Mexican-made canvas. Instead, Tara let these
15 concerns drag on too long, or failed to adequately
16 address them, until like a self-fulfilling prophecy
17 customers like us began to look elsewhere.

18 Thank you very much.

19 MR. GALLAS: Mr. Chairman, that concludes
20 our direct testimony. We would like to reserve any
21 remaining time.

22 CHAIRMAN KOPLAN: Certainly, and I want to
23 thank each of you for your direct presentation. I
24 would say the same thing that I did this morning that,
25 in responding to our questions since we have more than

1 one table of witnesses, if you would continue to
2 reidentify yourselves for the court reporter each
3 time. Thank you.

4 Mr. Gallas, you argue, on page 20 of your
5 brief, that: "within each of the broad canvas-type
6 categories, there are additional product distinctions.
7 For example, for stretch canvas, there are a multiple
8 of dimensions, frame depths, canvas weights, canvas
9 types, canvas adhesion methods, priming and quality."

10 And you illustrate your point with a
11 description of the seven types of stretch canvas that
12 you say are produced by Tara in a 16-inch by 20-inch
13 dimension. In collecting its pricing data, the Staff,
14 in order to get accurate comparisons, further divided
15 one of the types into three pricing products: Products
16 2, 3 and 4. Pricing products are generally chosen to
17 be representative of conditions within an industry.
18 The pre-hearing Staff Report notes, at page 5-18,
19 that: "For products one through five, the prices of
20 imports from China were lower than the U. S. producer
21 prices in all 63 price comparisons."

22 Taken with the increase in import volume and
23 U. S. market share by subject imports, why would I not
24 conclude that the importers of the subject product are
25 buying market share through persistent underselling?

1 Mr. Klett: Chairman Koplan, this is Dan
2 Kilett. I will try to handle that initially. It is
3 true that you had underselling across the board, but I
4 think in the testimony today, you have heard that one
5 of the advantages of imports from China and one of the
6 reasons that imports from China, the volume has
7 increased is that they offered a product at a lower
8 price point that generated additional demand. So I
9 don't think that you can conclude, or make the
10 correlation between the underselling -- or, you can
11 make the correlation between that the imports from
12 China available to price point and the increase in
13 imports from China, but I don't think you can draw --

14 CHAIRMAN KOPLAN: I am saying when they go
15 head-to-head that is what I am finding in our Staff
16 Report. These are price comparisons.

17 Mr. Klett: These are price comparisons and
18 they are going head-to-head, but what I am saying is
19 that when you look at the market overall, your point
20 about the correlation between -- can't you infer
21 therefor that the increase in the imports from China,
22 and their increase in import market share, was at the
23 expense of U. S. producers.

24 I don't think that you can draw that
25 conclusion because to draw that conclusion ,you have

1 to assume that the increase in demand and the increase
2 in market share is completely independent of imports,
3 and imports actually created demand in the market by
4 offering product at lower price points for consumers
5 that would not otherwise have bought artists' canvas.

6 So this is not a situation where you have a
7 commodity with flat demand where, when you see
8 underselling, you see increases in import-market
9 share, you can make the inference that that increase
10 was at the expense of U. S. producers.

11 I think your Staff estimated that demand was
12 relatively elastic which indicates that lower prices
13 generate additional consumption. In your purchaser
14 questionnaires, a number of purchasers indicated that
15 they buy both domestic canvas and imports, and that
16 the imports are in addition to what they bought from
17 U. S. producers.

18 CHAIRMAN KOPLAN: Did you want to add
19 anything to that, Mr. Gallas?

20 MR. GALLAS: No, sir.

21 CHAIRMAN KOPLAN: No, all right, thank you.

22 If you can expand on that a bit more in your
23 post-hearing, I would appreciate it.

24 MR. GALLAS: I will.

25 CHAIRMAN KOPLAN: Thanks. Again, I will

1 direct it to you, Mr. Gallas, but if you want Mr.
2 Klett to jump in with you again. You assert in your
3 pre-hearing brief, at page 15, that there were some
4 problems with the pricing data collected by the Staff
5 but that "even accepting the data as reported, there
6 is no evidence supporting a finding of material
7 adverse-price effects associated with the competition
8 from subject imports."

9 Tara asserts, at page 33 of their brief,
10 that "the price comparisons also demonstrate the
11 extent to which import underselling has prevented U.
12 S. producers from raising prices to cover their
13 increased material and production costs, and, in some
14 cases, even forced them to reduce prices."

15 If I find that the cost of goods sold is a
16 share of sales by domestic producers increased over
17 the period of investigation, while subject imports
18 undersold the domestic products and gained market
19 share, isn't that evidence of price suppression?

20 Mr. Klett: The increase in the ratio of
21 costs of goods sold to sales is an indicator of price
22 suppression.

23 CHAIRMAN KOPLAN: Right.

24 Mr. Klett: But then you get to the
25 causation question: Was that price suppression caused

1 by subject imports? One of the things you look at is
2 the underselling, but you don't just look at the
3 instances of underselling and the magnitude of
4 underselling. You also look at: Are there reasonable
5 patterns in the data that suggest that underselling is
6 commercially significant in terms of causing U. S.
7 prices to be lower than they otherwise would have
8 been?

9 And when you see underselling on a nominal
10 basis, but when you also see some U. S. prices going
11 up, some going down, some relatively flat, that
12 suggests to me that you should question whether the
13 nominal underselling is a cause of the price
14 suppression that you measured in the aggregate based
15 on your costs of good sold to sales ratio.

16 CHAIRMAN KOPLAN: I think I did get into
17 that actually this morning with the first panel to an
18 extent. Thank you.

19 Let me turn to the floor industry witnesses
20 if I could. No reflection on you, Mr. Klett, but I
21 would like to hear from them on this one.

22 Your brief asserts, at page 23: "The
23 testimony at the conference from both Petitioners and
24 Respondents' witnesses confirmed that the increase in
25 import volume from China is due largely to an increase

1 in demand for Chinese artists' canvas that would not
2 otherwise have occurred."

3 In your experience, are subject imports
4 generally less expensive than comparable domestic
5 products for those types of artists' canvas in which
6 domestic products and subject imports compete?

7 Who wants to begin?

8 MR. STAPLETON: This is Frank Stapleton.

9 CHAIRMAN KOPLAN: Yes, Mr. Stapleton.

10 MR. STAPLETON: I would say that generally
11 the answer to that is: Yes.

12 CHAIRMAN KOPLAN: Okay, Mr. Dowers?

13 MR. DOWERS: Mr. Dowers, yes.

14 CHAIRMAN KOPLAN: Mr. Marek?

15 MR. MAREK: I believe --

16 CHAIRMAN KOPLAN: Is your microphone on?

17 MR. MAREK: Chairman Koplan, this is Alan
18 Marek. I believe that is correct.

19 CHAIRMAN KOPLAN: Thank you. And Mr.
20 Kanter?

21 MR. KANTER: Yes, that would be correct.
22 The only thing that I might add is that there is an
23 element on what we were buying. It is not just I
24 guess the way you referred to it this morning as the
25 price per square meter, but the other components that

1 we are building into it and the value inherent in that
2 beyond just the pure costs, packaging, spec, quality,
3 time line, et cetera.

4 CHAIRMAN KOPLAN: Thank you.

5 Now, let me stay with all of you, if I
6 could. For those types of artists' canvas in which
7 subject imports and domestic products compete, have
8 you generally decreased purchases of domestically
9 produced artists' canvas and increased purchases of
10 imports from China since 2002?

11 I believe, Mr. Marek, you gave a partial
12 response to that at the Staff Conference, and that is
13 at our transcript at page 130. So why don't I start
14 with you and let you respond to this question first.

15 MR. MAREK: Chairman Koplan, this is Alan
16 Marek. I believe i stated that in 2004, we had a new
17 inventory management system put in place which --

18 CHAIRMAN KOPLAN: Would you move your
19 microphone closer.

20 MR. MAREK. Yes. In 2004, we put in a new
21 inventory management system which allowed us to better
22 balance our inventory and it lowered our purchases.
23 However, in that same year, while that happened, we
24 actually sold more Tara product to the tune of 15
25 percent than we did the prior year.

1 I believe you questioned this morning how
2 that could be, and I don't recall the Tara Respondent,
3 but I believe that the answer was: Well, it could have
4 been new store growth. Our new store growth might
5 have been from three to five percent, but certainly
6 there is real growth besides. But if you push that to
7 nine, there is still quite a delta involved that would
8 show that the canvas business was running at a faster
9 clip than the rest of the company.

10 CHAIRMAN KOPLAN: Okay, for my colleagues, I
11 would like to just get the answers from the others.

12 MR. KANTER: May I answer?

13 CHAIRMAN KOPLAN: Yes, Mr. Kanter.

14 MR. KANTER: Our canvas business has
15 actually, as I said, been on a five-year run. It
16 actually has accelerated more so in the last two-and-
17 a-half years. It is important to note that the canvas
18 business, and our sourcing supply, is inherently now
19 based in China more than the U. S.

20 And with the growth in canvas categorically,
21 it is self-fulfilling that the growth in Chinese
22 imports will grow. It is not a very easy thing to
23 move back and forth between domestic and import
24 sourcing. So, inherently for us, our business has
25 grown in China. It has grown as a result of the

1 business and the inherent sourcing that we have
2 already embarked on now for some two-and-a-half years.

3 CHAIRMAN KOPLAN: Mr. Dowers?

4 MR. DOWERS: Yes, I mentioned that our sales
5 had grown 45 percent over the past fiscal year and the
6 vast majority of that was actually from the
7 domestically sourced product that we would service
8 professional artists and students. And I would
9 probably say that 80 percent of the growth came out of
10 the domestic art-quality product.

11 CHAIRMAN KOPLAN: And Mr. Stapleton?

12 MR. STAPLETON: You saw the --

13 CHAIRMAN KOPLAN: Is your microphone on?

14 MR. STAPLETON: You saw --

15 CHAIRMAN KOPLAN: Now it is.

16 MR. STAPLETON: You saw that the items that
17 we carried in relationship to the Tara items. We
18 targeted that program very narrowly, and our sales,
19 according to Tara, actually had declined in the time
20 period prior to when they fired us. That was
21 explained entirely by a very large customer shifting
22 from us to direct. Tara knew that, so the actual
23 sales out-the-door, if you added it all together, our
24 sales in domestic canvas were up during that period of
25 time, marginally up, but they were up.

1 CHAIRMAN KOPLAN: Thank you.

2 Thank you for indulging me, Vice Chairman
3 Okun.

4 VICE CHAIRMAN OKUN: Thank you, Mr.
5 Chairman, and I join in welcoming all of you here this
6 afternoon. I appreciate your being here and your
7 willingness to answer our questions and provide
8 information.

9 Let me ask you to explain to me a little
10 more about the private label because a number of the
11 issues about when there were decisions to switch away
12 from Tara that seem to relate to how. And I guess
13 this is for Aaron Brothers, how they were going to
14 market themselves and promote themselves. But I am
15 just curious whether that change over time -- in other
16 words, if you had and maybe Michaels is a good
17 example, but I am not sure.

18 But if you have a Tara product marketed as
19 its Frederick branding and then there is a private
20 label, has there always been a price differential? In
21 other words, you saw the Frederick label as being the
22 higher end and then you have a private label that is
23 meant to compete, but people know that it is lower
24 priced and it doesn't have the same branding. Is that
25 what was going on? Is that still going on here, and

1 has it changed over the period of investigation with
2 the introduction of Chinese products and some of the
3 private labels?

4 MR. KANTER: I will attempt to answer that
5 in two different ways. One, the brand is important
6 and as less and less retailers are players in the
7 marketplace, specifically in the category, the
8 Fredericks and Tara brands are obviously important to
9 the business for them and they have an inherent cost
10 associated with marketing those brands.

11 So, if we were Aaron Brothers and had gone
12 down the Utrecht path originally, which is to buy our
13 good through them, we would have had some base
14 platform of fixed expenses and we would be actually
15 supporting for their branded business.

16 Said another way: Aaron Brothers' brand
17 business allowed us to actually package the product in
18 a different format than under Fredericks or what have
19 you. If you looked at our full assortments of this
20 past Fall some of our product actually talks to home
21 decor, not canvas for the sake of artistry, if you
22 will, or art, but actually home decor and decorating.
23 And actually, in May coming up, we are converting an
24 entire eight-foot gondola run to literally talking to
25 the customer about decorating with canvas, outside the

1 scope of really art. It is really using other uses
2 for the category.

3 So, from a branded perspective, it really
4 has much more meaning to us than Aaron Brothers' brand
5 in positioning the marketplace.

6 VICE CHAIRMAN OKUN: Do others have comments
7 on the branding aspect?

8 MR. MAREK: May I --

9 VICE CHAIRMAN OKUN: Mr. Marek.

10 MR. MAREK: At Michaels, we took a position
11 whereby we were able to offer a greater assortment of
12 product at varying price points which opened up the
13 product category to many more end users than what
14 previously existed. That is what created the sales
15 lift. Prior to being able to do so, we had a
16 relatively flat business.

17 But once we did that, once we put in our own
18 private label with enhanced features at price points
19 that were more affordable to students and to entry-
20 level hobbyists, that not only created a new source of
21 business for us, but it also bleed over to the step-up
22 products once they became comfortable with the entry-
23 level products. When you buy a canvas, you also have
24 to buy other art supplies as well. So, in effect, it
25 benefitted the entire store and our customer base.

1 VICE CHAIRMAN OKUN: Okay. Mr. Stapelton?

2 MR. STAPLETON: Yes, I just have one quick
3 thing to add to that and that is: This is a phenomenon
4 that is sort of restricted I think to very large
5 retailers. At a certain point, some large retailers
6 believe that their store name is a more significant
7 brand than many of the branded products that they have
8 in their store.

9 As a distributor of many named brands, that
10 is impractical for us. The little retailers that we
11 serve, really need the strong brand name to validate
12 the quality of the product because consumers, they
13 shop the stores. Their store name really doesn't mean
14 anything the way say Target's store name means a
15 significant thing to most of the consumers that shop
16 there.

17 And you have some, like Aaron Brothers, that
18 really has sort of carved that out. Michaels, on the
19 other hand, has basically said: We have a tiny little
20 selection of value-priced stuff that we can offer on a
21 promotion, but, for the most part, we really are all
22 about brand. I think that is an important distinction
23 that each one of these instances has a different way
24 of viewing this; and brand is very, very important to
25 us, and maybe less so to the other retailers here.

1 VICE CHAIRMAN OKUN: Okay. Mr. Dowers.

2 MR. DOWERS: Yes, John Dowers, to answer
3 your question quantitatively: We typically look at 25
4 percent as a minimum as a delta between what you are
5 looking for on a national brand and our own brand. If
6 you can't do it for more than that and provide some
7 value, we don't do it. We do do it clearly in paint
8 and our stores are merchandised that way against the
9 market leader.

10 In canvas, just because of the sheer size of
11 the canvas department, the amount of space it takes
12 relative to the relative size of the stores, which is
13 about a 5,000 square foot, the size I would say of a
14 Radio Shack, slightly bigger. We weren't able to make
15 that comparison, so it was all Utrecht. But what we
16 did decide to do is to do a good, better, best kind of
17 a flow in terms of our ranges of products.

18 VICE CHAIRMAN OKUN: Okay. That is helpful.

19 I am also trying to understand. In some of the
20 questions this morning, we talked about whether the
21 increase in apparent consumption is due to a different
22 product being offered that then appealed to what you
23 described as your soccer moms or your home decor, or
24 whether it is the same product just at a cheaper price
25 branded with a name on it that therefore is in the

1 stores.

2 So, I guess I am asking for your response on
3 that because, on the one hand, I hear and appreciate
4 the quality issues that you have talked to and some of
5 the relationship issues, and they are obviously
6 important in businesses and there has been a lot of
7 documentation provided on those, so I will look at
8 that.

9 On the other hand, I am trying to understand
10 if Tara is seen, as many of you say as having been
11 this quality leader on this high-end product and
12 people are going to stay with them and all you are
13 doing is bringing in something else for the rest of us
14 who, like me, have kids and I am saying: Yes, I want
15 the cheap product. It will go out the door.

16 I am trying to make sense of that because it
17 cuts a couple of different ways. So I am just trying
18 to understand: Is Tara good enough quality that there
19 is no way that you could get it at the price point you
20 need to market it, to what you see as a different
21 category versus -- you know, you had some problems
22 with Tara and the Chinese were there. They came in
23 and they were cheap, take them, and look what happened
24 since then. So do you want to respond back there?

25 MR. KANTER: This is Mr. Kanter.

1 VICE CHAIRMAN OKUN: Yes.

2 MR. KANTER: There is actually a multi-
3 component answer in that. First of all, Aaron
4 Brothers has extended their sizes. So, in the
5 marketplace, six months, a year, a year-and-a-half
6 ago, 12 x 12 squares became a very significant size in
7 decorating.

8 And, in direct comparison, because we are
9 owned by Michaels and we share a lot of information on
10 anything we want and we can see that Aaron Brothers is
11 much more trend oriented or faster with the customers,
12 so we have been in squares. Michaels hasn't got there
13 until recently.

14 Then, in addition to that, most recently, as
15 part of that gondola run that we are talking about
16 changing in May, we will be launching another size and
17 shape which Phil can add to his brief, but I want to
18 talk about specifically here, it again extends us as a
19 retailer by offering something that may or not be
20 within the Tara mix, or for that matter the others,
21 and to do that; and to extend yourself before the
22 markets there, we need higher mark-up to basically
23 offset the risk inherent in running 165 stores with
24 the new product size and shape that may or may not be
25 received by the consumer well. That would be No. 1.

1 The other thing I guess, which is relevant
2 in answering your question, is that the innovation
3 provided by Tara, and/or some of the self-direction by
4 us, it should be a leading-edge merchant, if you will.
5 If you were to look at some of our advertising, and
6 again, Phil, we might show that May ad that I
7 referenced yesterday. We will show you an ad that
8 will support that in our post-brief. I guess, we are
9 positioning ourselves not very much around price, and
10 you will see in our advertising in May that really the
11 ad talks to home decor and price is part of it. But
12 it talks to decorating in a whole other realm of the
13 business which is different and unique, and probably
14 more unique in the art-supply business which is very
15 oriented towards price for many reasons.

16 VICE CHAIRMAN OKUN: Okay. Yes, Mr. Gallas.

17 MR. GALLAS: Well, just to add to that. I
18 think the clients have illustrated what I said earlier
19 today about the way that they have promoted through
20 events and looked to grow the product that they have
21 created the demand for people like my wife and I, who
22 are addicted to the House and Garden channel and all
23 these house channels where people do the cheap-sheet
24 decoration. This is the way you do it and Aaron
25 Brothers basically in the brochure he referenced that

1 we will attach to our brief, it basically gives a
2 blueprint for how people can make a wall of art,
3 grouping together very small canvases. It tells them
4 what paints to use, how to wash the paint. I mean
5 they are the ones who have created the excitement for
6 the impulse purchase. I wouldn't think normally to go
7 and purchase a canvas, but when I think about: Well,
8 this corner could use something and I could just
9 follow their pattern in their brochure. It is a very
10 clever way to decorate very inexpensively.

11 VICE CHAIRMAN OKUN: Okay. I appreciate
12 those comments. My red light has come on. I will
13 have some follow-ups.

14 Thank you, Chairman Koplan.

15 CHAIRMAN KOPLAN: Thank you. Commissioner
16 Hillman?

17 COMMISSIONER HILLMAN: Thank you and I too
18 would join my colleagues and welcome you. We
19 appreciate your staying with us and answering these
20 questions this afternoon.

21 Let me follow up just a little bit with
22 where you just left off because let's just say I
23 accept this. I confess to being, I think, a real
24 soccer mom that has actually not purchased any canvas
25 since my high school and college painting days, but

1 nonetheless, if I take your argument, okay, you've got
2 all this new demand out there to use product for
3 something perhaps a little bit differently
4 traditionally, I'm still stuck on why does that
5 necessarily mean you have to get it from China?
6 That's where I'm trying to understand it. You talked
7 about this 12-by-12, if I opened up page 1 of the
8 exhibits that you brought from the 2002 price list,
9 and there I see Tara offering a 12-by-12 product. So
10 help me understand what it is about this new thing
11 that requires it being an imported product from China?

12 MR. STAPLETON: Can I address that?

13 COMMISSIONER HILLMAN: Sure.

14 MR. STAPLETON: This is Frank Stapleton.
15 When we first introduced our program, and it was a
16 small-scale product selection, we really had this
17 customer in mind, and we saw this as complementary.
18 We did approach Tara about this, and they glossed over
19 it. They actually described the program but kind of
20 put a negative spin on it. They used the words,
21 "stack it high, and watch it fly," and they said there
22 was a trick in raising the retail price up 20 percent
23 and then giving a 40 percent discount off of that.

24 The program that these guys in California
25 that we sort of patterned our program after really

1 took all of these elements. They took a merchandizing
2 approach, they took a retail price approach that was
3 higher, and they offered a constant discount.

4 Now, to reach you, Commissioner, and
5 possibly you, Commissioner, if you go into a Michaels
6 store, you go into an Aaron Brothers store, or you go
7 into one of our customer stores, and you're not going
8 in there to buy anything except maybe an Xacto knife
9 or some glue for a kid's project, you're not going to
10 be thinking about what the possibilities are for this
11 canvas, for what you could do with canvas.

12 You're not thinking canvas at all. You
13 haven't used it since college, so you need something
14 to grab you. You need something to say, hey, this is
15 something I could do, and one of those things is a
16 stack in the middle of the store when you walk into
17 the store. Another one is a sign dangling down saying
18 40 percent off. Of what? You don't know what the
19 price is. You wouldn't know what the price was if you
20 tripped over it, but 40 off means something to you.

21 Now, that might get your attention, and you
22 might be thinking about a wall in your kitchen or
23 somewhere else in your house where this is something
24 that you might do, and pricing being able to do that
25 for us -- now I'm just speaking about MacPhersons at

1 this point, and that is, for us, we went to Tara, and
2 we proposed this idea to them, and it was problematic
3 because --

4 COMMISSIONER HILLMAN: From a price
5 standpoint or problematic from a production
6 standpoint?

7 MR. STAPLETON: I think it was problematic
8 for them just in general because it wasn't what they
9 did. I'm not exactly sure. I laid the program out.
10 I described it entirely to them, and it would have
11 required some partnering, which might have required a
12 creative look at pricing.

13 Part of this thing was, when you see the
14 canvas over there, this concept, reaching that
15 customer, really needed a wrapped canvas or a spline
16 canvas because the consumer who is buying that doesn't
17 want to deal with the staples on the edge. They
18 really would like to just put it up on the wall and
19 not have to worry about a frame. So it required a
20 wrapped canvas. You heard them describe it. That was
21 a problem for them to begin with. They didn't have a
22 way of doing that cheaply. It was more expensive than
23 doing the side-stapled canvas.

24 Well, since -- I don't have any data to
25 support this, but they have pretty much phased out

1 stapled canvas in favor of wrapped canvas without
2 staples on the edge, and I believe they have done it
3 by finding production efficiencies, either in Mexico
4 or through automation, to equalize the price, but at
5 the time, the difference between side-stapled canvas
6 and wrapped canvas was between 15 and 20 percent, a
7 premium.

8 Now, even with that, as a wholesaler buying
9 from a manufacturer who was selling to retailers
10 directly at pretty much the same price they were
11 selling to us, it would be very difficult for the
12 equation to say to the retail store, you can offer
13 this at a retail price that you can then discount 40
14 percent, and you can still earn 40 percent yourself to
15 operate your store. The economics weren't there for
16 us to do it.

17 Now, creatively, they could have said, "I
18 love the concept. Let's sit down and work through
19 it," yet the meeting lasted about 15 minutes when we
20 first described it.

21 COMMISSIONER HILLMAN: Mr. Marek, did you
22 want to add anything again, focusing on this issue of
23 -- I understand what you're describing. I'm still
24 trying to understand why it necessitated imports.

25 MR. KANTER: Commissioner Hillman, can I

1 jump in for a moment?

2 COMMISSIONER HILLMAN: Sure.

3 MR. KANTER: I want to try to specifically
4 answer your question. Aaron Brothers has the spline-
5 back canvas as by far its majority of the assortment.
6 Stapled-sided, stapled-back is barely offered, if at
7 all. Literally, the majority of our two core
8 programs, our opening-price program and our medium-
9 program, are both spline backed, and as we already
10 testified, or I did, we had some challenges out of the
11 Mexican category or their facility there. That's
12 number one.

13 Number two, there wasn't a whole host of
14 opportunities to buy it other than the resource that
15 we found in China, and that has a perceived value
16 that's higher, but we also needed to make sure that we
17 maintained that opening-price and mid-priced category.

18 So the answer to your question actually is
19 yes for what the specific offer was and the specific
20 product we carry, and then inherently to the other
21 question I already answered with Commissioner Okun,
22 relate to the marketing of the product, the packaging,
23 the labeling, all of those things that we do on our
24 own, those are more inexpensive to do when you're not
25 burdened by the overhead of a brand of business in the

1 States.

2 But the answer to your question is yes, but
3 it's for a whole host of reasons which, when you put
4 them all together, make sense why we were faced with
5 what we did.

6 COMMISSIONER HILLMAN: I appreciate those
7 answers. If I can touch just for a minute on the
8 quota issue, which you've raised. I just want to make
9 sure I understand it in terms of perspective. It's my
10 understanding that Category 229 had been under quota,
11 but it was dropped very early in the 10-year phaseout,
12 dropped early on, meaning there has not been a
13 specific limit on Chinese imports since -- I think
14 it's 1998. So, presumably, fairly unlimited access to
15 this product until the new quotas came on in 2006.

16 You need your microphone on.

17 MR. STAPLETON: I'm sorry. In 2001, we
18 stopped having to deal with quota. Our very first
19 year that we imported canvas from China was the second
20 half of the year 2000, and at that point, the textile
21 quota was still on.

22 COMMISSIONER HILLMAN: Okay. Obviously, we
23 can look at it, but it is my understanding that the
24 category 229, which has a wide range of stuff in it --
25 it's a huge chunk of specialty fabrics -- had had a

1 specific limit on it, so under the Chinese bilateral,
2 it would have had a specific limit on it, and it would
3 have had a group limit under the specific limits, et
4 cetera, that were dropped, as I understand it, on this
5 category in 1998.

6 I'm just trying to understand. At least, it
7 would be my perception that there has been, therefore,
8 relatively free access to however much anybody wanted
9 of products in Category 229 until 2006. So I'm trying
10 to understand whether you think that's right. In
11 other words, whatever the volume of shipment was in
12 2005 was not affected by anything else.

13 MR. GALLAS: Phil Gallas. That is correct.
14 With 2006 came the textile safeguard quotas, which, of
15 course, applied to Category 229.

16 COMMISSIONER HILLMAN: What I'm trying to
17 understand is what is your perspective as to why 229
18 was included in this bilateral agreement. There had
19 not been a petition filed by the industry on this
20 product. The fact that it was dropped as early as it
21 was in 1998 is generally viewed as an indicator that
22 it is not an import-sensitive category of product,
23 very few restraints on any countries elsewhere in the
24 world, and this has never been viewed as a
25 particularly sensitive category of product, and no

1 petitions filed. So I was just curious whether you
2 have an understanding about whether it was one of the
3 other parts of 229 that drove the reimposition of a
4 quota on this category. It seems to me very odd that
5 you would put a quota on Category 229, among the least
6 interesting to the textile industry of all of the
7 categories I could think of.

8 MR. GALLAS: It's for specialty fabrics. It
9 comprises around 65 different HTS numbers. Of those
10 65, there are only two HTS numbers that have to do
11 with canvas. I do not know the reason why that
12 particular quota category was targeted, but the point,
13 of course, and I know where you're headed, but the
14 point that these people are saying is now that it's in
15 effect, essentially it has created an incredible
16 shortage compared to the ability to bring in the
17 product. I know that quota is a factor that you have
18 considered in the past. It's just one factor, but it
19 is certainly not a frivolous argument, especially when
20 we consider threat.

21 COMMISSIONER HILLMAN: Given the light has
22 come on, I will come back because I do have a lot of
23 questions on how the allocations are working and some
24 other things on it. Thank you.

25 CHAIRMAN KOPLAN: Thank you, Commissioner.

1 Commissioner Lane?

2 COMMISSIONER LANE: Mr. Gallas, I must say
3 that until last week I didn't know what HD TV was, and
4 now you're the second person I know that has actually
5 watched one of those channels, so congratulations, and
6 I'm glad there is a market for those channels out
7 there.

8 Let's go to Mr. Stapleton. I understand
9 what you said, that when you got into this product and
10 decided to do a new, innovative marketing that Tara
11 didn't seem to be all excited about it, and then you
12 went to China. Could you tell me, though, what the
13 placement of the product in the stores has to do with
14 whether or not it's from China or from a domestic
15 product?

16 MR. STAPLETON: It has no bearing on it
17 whatsoever. The placement in the store has to do with
18 building the demand, but there are other factors for
19 building the demand. As I sort of pointed out to the
20 other commissioners, the idea behind this marketing
21 plan was that many people walk into the arts supply
22 store to buy many things, but if you take the numbers,
23 only 3 to 5 percent of them are looking for canvas,
24 and what these guys did in California, by creating
25 this sort of multitiered marketing program, was to

1 prove that actually five times that number would
2 actually buy canvas if sort of presented with enough
3 of a compelling reason and the product staring them in
4 the face.

5 If they put it in the back of the store, and
6 they hid it away in cubbyholes like this, it was never
7 going to happen. If they put signs out that showed
8 the product at a discount, and they stacked it up, you
9 know, and let it fly, then they would actually sell it
10 to a bunch of people that weren't intending to do
11 that.

12 So it really doesn't have to do with that
13 whole concept I've just described except for the
14 pricing component. Let's say the pricing component
15 that relates to a nonproducer, a distributor or
16 importer, being able to sort of carry out this
17 program, none of that really has to do with China
18 except that part.

19 I should add Michaels as an example because
20 they have seen an explosion in canvas sales, selling
21 Tara, and what they did was not the 40-off thing, but
22 they took an approach to displaying the canvas face
23 out in all of their stores, and that had a huge impact
24 all by itself. So each one of these elements has an
25 impact.

1 COMMISSIONER LANE: Okay. Thank you.

2 Mr. Gallas, I'm not sure who should answer
3 this, but you have stressed in your prehearing brief
4 and in the preliminary phase of the investigation that
5 the Commission should focus on why Tara decided to
6 shift some of its canvas operations to Mexico. In
7 what should the Commission incorporate this
8 information into its material injury analysis?

9 MR. KLETT: Commissioner Lane, this is Dan
10 Klett. I think the reason for getting at why Tara
11 shifted production from the U.S. to Mexico is
12 important to your analysis because, to a degree, it
13 explains a portion of the decline in their U.S.
14 production. So to the extent that they shifted to
15 Mexico for reasons other than imports from China, I
16 think that's relevant to whether you can draw a
17 correlation between their production declines and
18 Chinese imports because if they had shifted to Mexico
19 for reasons other than competition with imports, then
20 imports weren't the cause of the shift.

21 The point I was trying to make in this graph
22 was that the shift began well before imports from
23 China were even a factor in the market. It seems to
24 me there is at least a component of their decision to
25 shift to Mexico that is not import China related.

1 MR. GALLAS: This is Philip Gallas. I would
2 just add that the story you heard this morning was
3 some kind of cause-effect argument that Chinese
4 imports arrived on the scene, and, therefore, we had
5 to shift to Mexico. But as you'll see in our brief,
6 especially using the APO information on the record,
7 the chronology is quite different, and the census
8 statistics certainly show that China was a blip, an
9 insignificant amount coming out of China when Tara
10 made its decisions.

11 COMMISSIONER LANE: Okay. Thank you.

12 How does the range of products offered by
13 artists' canvas producers in China in terms of shapes,
14 sizes, canvas, fabrics, price points, et cetera,
15 compare with the range of products offered by U.S.
16 producers and by Tara in particular?

17 MR. DOWERS; John Dowers. I can speak to
18 it. At Utrecht, we found that the offerings were
19 significantly greater, and it could be a number of
20 factors: the more sophisticated operations that we
21 found with the operation in Kansas City that we ended
22 up with, a more skilled workforce, things like a
23 language barrier when you're trying to design an oval
24 -- what's the radius? what's the diameter? how does
25 that work? -- those kinds of elements; the fact that

1 you could also easily hop down there and go see it,
2 again, for a small-to-mid-sized operator.

3 So we found that the domestics, or certainly
4 our confidence level in a domestic supplier to provide
5 us with a lot more shapes and sizes and creative
6 opportunities was certainly more domestic. At least,
7 that's where we spent our time and energy. So we
8 found that to be superior to what we did in China.

9 COMMISSIONER LANE: Okay. Thank you.

10 The only pricing product for which pricing
11 data were mixed, evidence of underselling and
12 overselling, was Product No. 6, the canvas panels.
13 How do U.S.-produced panels and panels imported from
14 China differ? Are there quality differences?

15 MR. STAPLETON: Frank Stapleton taking a
16 stab at this. From a quality standpoint, I think if
17 you look at India, the Indian canvas panels have a
18 superior core. In China, I think the chip board is a
19 little harder to get, or at least quality chip board.
20 In the U.S., it's readily available. The chip board
21 sort of determines the dimensional stability of the
22 board. It won't buckle, and that's important if
23 you're going to put it into a frame.

24 So the differences in quality, I think, are
25 sort of related to that. In China, you end up having

1 to pay more money to match kind of the U.S. operation.

2 COMMISSIONER LANE: Okay. If I were a
3 professional artist, and that's all I did, and let's
4 say I was a very successful professional artist and
5 sold my work for thousands of dollars, where would I
6 go to buy my supplies and my canvases? Would I go to
7 some of you all?

8 MR. DOWERS: John Dowers with Utrecht. The
9 odds are pretty good, if I was to stereotype an
10 artist, probably a decent chance you're living in the
11 city, probably even tied to the university that you
12 might have gone to school at, possibly even teaching.
13 The artist community is a pretty emotional occupation.
14 You don't always do it for the money, but there is a
15 very good chance you would be in one of our stores
16 because, again, we're smaller, and we tend to focus
17 very, very clearly on fine artists' supplies.

18 MR. STAPLETON: Let me just take a quick
19 stab at it. There is a little bit of an 80/20 rule
20 that works with the artists. There are sort of
21 artistic centers, and I would say if you were to plot
22 them on the map, they relate to New York City as kind
23 of the premier one, Los Angeles probably being the
24 second one, Chicago being the third, and then there is
25 kind of a group of artists that's sort of distributed

1 out into the countryside. The larger art materials
2 stores that have the largest selections are in the
3 largest centers.

4 One of the things that we've tried to do
5 with our program is encourage wider variety because
6 there has been a movement from the artistic community
7 to move out into the suburbs or into the countryside
8 where they might shop at arts supply stores that
9 previously wouldn't have had much of a selection.

10 COMMISSIONER LANE: If I were the same
11 serious, professional, highly successful artist, would
12 I care if my canvas came from the United States or
13 China?

14 MR. DOWER: Personally, I don't think so. I
15 think you would evaluate the quality with the
16 confidence that you had. You would evaluate the
17 quality yourself. You would look at the thickness.
18 You would look at the weight. You would hold it up to
19 the light and see if there are any pin holes. You may
20 prep it to make sure that there wasn't any leaching,
21 i.e., any materials coming through the canvas. You
22 wouldn't want that. You may check to see if it was
23 archival, and you would probably try it and experiment
24 with it, and time would have told you that that, in
25 fact, was a superior product.

1 COMMISSIONER LANE: Okay. Thank you.

2 CHAIRMAN KOPLAN: Commissioner Pearson?

3 COMMISSIONER PEARSON: Thank you, Mr.

4 Chairman, and welcome to the afternoon panel.

5 Mr. Klett, let me start with you, if I
6 could. Earlier, the chairman asked a question about
7 cost of goods sold. I thought I understood that
8 better after my discussion with this morning's panel
9 than I did after I heard your response, so let me go
10 back and just touch on those things to make sure that
11 I've got this straight.

12 Often, if we see an increase in cost of
13 goods sold, we would see it as an indication of some
14 price suppression, cost-price squeeze. That would be
15 the right term, cost-price squeeze. In this
16 investigation, it's a little harder for me to know for
17 sure what to make of it because we have a real change
18 of product mix during the period of review. When we
19 look at cost of goods sold for the industry in
20 aggregate, we see a relatively stable situation. The
21 same applies when we look at what's happening just in
22 bulk, and it's when we look at what's happening in
23 finished canvas that we see an increase in cost of
24 goods sold over the period.

25 I'm wanting to make sure that I understand

1 that. What do you think accounts for the three
2 different patterns when we have the three different
3 items?

4 MR. KLETT: I think the different patterns
5 you have between the bulk and assembled cost of goods
6 sold-to-sales ratio is just -- I have to be careful
7 about what I say for APO reasons, but I think it's
8 based on an artificial method in which the
9 profitability was split between the two categories. I
10 think it's a purely mathematical result.

11 I don't think it has anything to do with
12 your being able to derive any conclusions for your
13 causation analysis, as Mr. Thompson said, by saying
14 that the fact that the cost of goods sold-to-sales
15 ratio for assembled canvas because it's going up and
16 for bulk canvas because it's flat, and you have more
17 competition in the assembled canvas, therefore, that
18 shows causation and an adverse effect. I don't think
19 you can come to that conclusion because I don't think
20 the data were reported correctly to even make that
21 comparison, is my short answer -- well, it's my
22 answer. That's my explanation.

23 COMMISSIONER PEARSON: Would there be an
24 issue in regard to the finished canvas with a shift in
25 general toward more expensive canvases? I think I

1 understood the testimony that there has been a
2 shifting away from stapled easily around the edges and
3 do something that's more expensive to tie up that back
4 edge of the canvas. So if you have that happening
5 over the period of investigation, would that
6 potentially be a factor that would influence cost of
7 goods sold relative to sales?

8 MR. KLETT: It could, but I think when
9 you're dealing with a very heterogenous product like
10 this, when you're looking at your cost of goods sold-
11 to-sales ratio, to a certain extent, it automatically
12 controls for shifts in product mix to the extent that
13 even though there may not be a one-to-one correlation,
14 that your lower-cost products, such as a canvas panel,
15 also, on average, have lower prices so that if you're
16 shifting from stretched canvas to canvas panels,
17 you're going to see declines in our average unit value
18 but also declines in your average unit cost.

19 So from a product-mix perspective, I still
20 think your cost of goods sold-to-sales ratio is still
21 a reliable indicia, providing you have accurate data,
22 in terms of evaluating whether there is price
23 suppression.

24 COMMISSIONER PEARSON: Okay. Well, if there
25 is something that we should know in the post-hearing

1 brief about cost of goods sold, by all means, go ahead
2 and explain it.

3 Now, let me, if I could, go to the issue
4 that you've touched on here, and that is the data
5 problems, and I know you mentioned that in your direct
6 testimony, but I wanted to go back and make sure I
7 understood what you were saying.

8 I think that you argued that the lack of
9 questionnaire responses from companies that are
10 involved in the business of making the digital
11 printing canvas may have skewed our data overall. Is
12 that correct?

13 MR. KLETT: That's definitely what we're
14 saying.

15 COMMISSIONER PEARSON: Can you explain what
16 the most serious deficiencies might be in our data and
17 offer any suggestions on how they might be rectified?

18 MR. KLETT: There's two areas in terms of
19 data that we see a problem. One is just having full
20 coverage of the industry, and we feel that your
21 precedent indicates that converters that produce
22 digital-print canvas should be part of the industry,
23 whether you apply a value-added analysis or just by
24 virtue of the fact that those are the only producers
25 of digital-print canvas, so they have to be the

1 industry.

2 I think it's also important to recognize
3 that in terms of biases to your data that even if it's
4 only -- let's say you had some sense of what the total
5 market was, so based on your questionnaire responses,
6 you knew what percentage coverage you had, and let's
7 say you had 90 percent coverage. For purposes of
8 sales and volume trends, that might be reasonable to
9 presume that that coverage is good enough, so that 90
10 percent reflects what the overall industry is.

11 When you get to profitability and bottom
12 line, missing individual producers in terms of the
13 operating profit level can actually have a
14 disproportionate effect, greater effect, than their 10
15 percent based on sales revenue and volume, especially
16 when what you're missing, if there is an indication of
17 the producers you're missing, are in a part of the
18 market that's doing very well, if you don't have data
19 for those producers, then I think you should be
20 worried about whether the data you do have does
21 reflect the condition of the industry overall.

22 COMMISSIONER PEARSON: You would ask us to
23 infer that in a part of the industry that's growing
24 rapidly that firms would be able to be more profitable
25 than in parts of the industry where they might not be

1 growing so rapidly.

2 MR. KLETT: Well, I don't even think that
3 you need to infer that because you do have some
4 information from digital-print canvas producers. So I
5 think you have actual information about how that
6 sector is doing versus the rest of the market based on
7 not complete coverage but at least some information
8 from that sector of the market. So I don't think you
9 necessarily need to just make an inference.

10 COMMISSIONER PEARSON: Okay. You probably
11 know this. I might as well ask it. Have those
12 companies for which we do have information that are
13 involved in the digital side of things, is that
14 information included in our financials currently?

15 MR. KLETT: It's not included in the
16 financials in the staff report. There was a note in
17 the staff report indicating that the data came in too
18 late to be included in your financials, so at least in
19 the staff report, the financials do not include some
20 producers just because they came in too late to be
21 included in the prehearing staff report.

22 COMMISSIONER PEARSON: Okay. Mr. Gallas?

23 MR. GALLAS: I would just add that in our
24 brief we did reference those questionnaire producers'
25 responses that did come in regarding digital-print

1 canvas, and we addressed the value added and
2 production, and you'll see that if you are able to
3 obtain more of those producers' questionnaires, the
4 complexion of your prehearing report findings will
5 change significantly.

6 I would like to go back to something I heard
7 this morning. We had one exhibit in our prehearing
8 brief that tried to take an assessment of all of the
9 digital-print canvas producers who we encouraged you
10 to send questionnaires, where their different
11 questionnaire responses stood and what was the status.
12 We only made confidential the entire exhibit because
13 it was BPI. It was the APO information. That's why
14 it just happened to include in that confidential
15 exhibit some public e-mail addresses of these
16 companies. Of course, e-mail addresses are not
17 confidential.

18 But I was a little puzzled because it was my
19 impression when we, months ago, gave you comments on
20 the questionnaires, the draft questionnaires for the
21 final, I could swear that we made as a public exhibit
22 the names of all of those companies, and, of course,
23 we served the other side. I may be wrong, but that's
24 my recollection. So I believe the other side should
25 have had the name of all of those companies.

1 COMMISSIONER PEARSON: Thank you, Mr.
2 Gallas.

3 Mr. Chairman, my time has expired.

4 CHAIRMAN KOPLAN: Thank you, Commissioner.
5 Commissioner Aranoff?

6 COMMISSIONER ARANOFF: Thank you, Mr.
7 Chairman, and I join my colleagues in thanking all of
8 the witnesses for spending this afternoon with us
9 answering our questions.

10 One of the things that I'm trying to
11 understand with regard to pricing for this product,
12 when we make our determination, we have to look at the
13 price to the first customer, which would be either the
14 price to the distributor or the price to the retailer,
15 and not the price that you all charge your customers
16 further down the line. There has been some discussion
17 about what the price difference is between domestic
18 versus Chinese products of the same general type or
19 private label versus proprietary label.

20 So what I want to ask and have some of the
21 retailers answer for me is can you describe for me,
22 either here or, if it's confidential, in your brief,
23 if you take a product that's as comparable as possible
24 in terms of size and quality, what is the typical
25 retail price spread between a domestic product and the

1 Chinese product, and how is that different from the
2 spread between the price that you, as a retailer or
3 distributor, pay to the factory for the domestic
4 versus the Chinese product?

5 MR. KANTER: I just want to make sure I
6 understand the question. Your first question was with
7 regard to the retail. Is that correct?

8 COMMISSIONER ARANOFF: That's right.

9 MR. KANTER: And your second question was
10 cost?

11 COMMISSIONER ARANOFF: Yes.

12 MR. KANTER: On a retail basis, there is not
13 an all-or-nothing answer. In many cases, we will
14 import from overseas with inherently higher costs on
15 the end, once we have it here, as opposed to the end
16 when we first buy it. So when we buy it overseas, we
17 buy container load. We warehouse the inventory. We
18 have carrying costs, inventory costs, cash flow
19 impact, and things of that nature, in addition to
20 packaging and production and all of that stuff. So
21 our retails very often could be the same, if not
22 actually higher in some cases, because it's branded
23 Aaron Brothers, and we hope, at some point, to get a
24 cachet element to that brand.

25 So there is not an all-or-nothing answer to

1 say that the Aaron Brothers brand is more or less,
2 whether it's imported or domestic. That's kind of a
3 nonanswer answer, but it's not as black and white as I
4 think that you were looking for. If I'm wrong, and
5 you want more, I can try to answer differently.

6 On a cost basis, we do expect when we go
7 overseas -- it doesn't matter whether it's China or
8 anywhere else -- when we go overseas, we expect a
9 minimum of 20 to 25 percent lower costing to pay for
10 all of the burden that we have to incur -- the
11 liability, FOB -- our FOB price, wherever it comes
12 from, is when we take ownership. Of course, we have
13 insurance, but we carry insurance costs. If the goods
14 fall off a container off a ship, and as much as I hate
15 to hear that, every once in a while we hear that as an
16 excuse why we didn't get goods -- there are many
17 inherent risks in actually taking ownership of goods
18 from overseas.

19 So there has to be a significant cost
20 differential for us to actually leave a domestic
21 resource because a domestic resource pretty much can
22 buy, and if we've done a good job forecasting out the
23 needs of our retail business to the resource, we can
24 basically buy today and get it in four weeks or what
25 have you, whereas overseas it's 90 to 120 days, and

1 there's many other inherent elements.

2 So the answer to your question is typically
3 20 to 25 percent. Sometimes it might be greater if
4 the risk is greater. Sometimes it might be less if we
5 can't actually source it domestically.

6 COMMISSIONER ARANOFF: One of the things I'm
7 trying to get at is, as I take the Petitioners'
8 argument, their argument is you guys can go to China,
9 buy pretty much the same product, maybe a little bit
10 lower quality sometimes, for a price that is so much
11 lower that your cost spread acquiring it from China
12 versus the U.S. is huge, and you can then charge a
13 lower price at retail but actually be collecting more
14 money in the end. I guess I'm trying to determine
15 whether that's true.

16 MR. KANTER: It's actually interesting.
17 Through the issue of quota and our loss of goods, and
18 Phil might want to reference this specifically -- I
19 will tell you the resource, but there is a resource
20 that we've explored most recently as a week ago to buy
21 domestic-based goods because of the lack of quota.
22 The cost differential in this case, working with that
23 resource, is about 15 points. It's as low as 12, as
24 high as 17, points more expensive to buy domestically.
25 That's not the normal deal, but that resource has

1 worked with us. So, again, it does vary. It's not
2 quite "black and white."

3 COMMISSIONER ARANOFF: Okay. I appreciate
4 that.

5 Let me ask the retailers who are present
6 here, do you all sell the digital-print canvas
7 product?

8 MR. KANTER: We do not in any significant
9 measure. We buy basically, as was referenced earlier,
10 product that is printed on, but it's already executed
11 with artwork as opposed to the third party we buy it
12 from.

13 COMMISSIONER ARANOFF: Anybody else who is a
14 retailer?

15 MR. DOWERS: John Dowers, Utrecht. We
16 currently do not, given the scope of our stores and
17 focus on the traditional artist and size of our
18 stores, we currently do not.

19 COMMISSIONER ARANOFF: Mr. Marek?

20 MR. MAREK: As the sourcing guy, I can't
21 tell you exactly if, in fact, we do or we don't, but I
22 don't recall seeing it in our store.

23 MR. STAPLETON: I have seen it in the
24 Michaels stores.

25 COMMISSIONER ARANOFF: I'm trying to figure

1 out whether it's inherently a different group of
2 retailers that sells that. That was something that
3 some of my colleagues touched on with the Petitioners
4 this morning, whether there was a completely different
5 channel of trade through which the digital stuff was
6 traveling.

7 MR. STAPLETON: Can I answer? Frank
8 Stapleton.

9 COMMISSIONER ARANOFF: Go ahead.

10 MR. STAPLETON: We sell packaged goods that
11 retailers can sell with an array of other products
12 that will work through ink jet media. So digital
13 canvas is one of those packaged goods, and it's sold
14 in pretty much all retail arts supply stores. It's
15 not a huge factor; it's one of a selection.

16 COMMISSIONER ARANOFF: Okay. We were told
17 this morning by the Petitioners that Chinese producers
18 are capable of producing this digital print product,
19 and, Mr. Gallas, I know you argued in your brief that
20 this part of the industry is insulated from
21 competition with the Chinese industry, so I wanted to
22 ask you if you have anything to add based on what we
23 hear this morning. If it's true that the Chinese can
24 produce digital-print canvas and that some of it
25 actually has been imported into the United States, are

1 there quality issues? Is there anything keeping them
2 out of the market, or is this isolation of the market
3 that you've described sort of about to end?

4 MR. GALLAS: It is my impression when I
5 wrote that, in talking with my clients, that there
6 were no imports of any significance coming into the
7 country from China. Whether that picture has changed,
8 our clients are not aware of any source, and these are
9 the guys who would know because they account for a
10 significant amount of the stores that would sell this
11 sort of thing.

12 COMMISSIONER ARANOFF: Okay. Well, that
13 leads me to my next group of questions, which really
14 has to do with how much this group of witnesses
15 actually knows about the Chinese industry. I think it
16 was Mr. Marek I heard indicate that you had visited
17 your supplier in China, which is the Phoenix factory,
18 who is one of the Chinese producers who is represented
19 here. But for the rest of you who have purchased
20 Chinese product, do you know who the factories are
21 that you're getting the product from? Do you feel
22 that you know who all of the producers in China are?

23 MR. STAPLETON: I can take a stab. This is
24 Frank Stapleton. I visited two factories over there,
25 and those are two of the three named Respondents. So

1 Conda and Phoenix, I have visited.

2 COMMISSIONER ARANOFF: Okay. My
3 understanding is that the third named Respondent is
4 not actually a factory; it's a trading company that
5 doesn't actually produce the product itself. Is that
6 correct?

7 MR. GALLAS: Phil Gallas. That's my
8 understanding. Yong Su buy product.

9 COMMISSIONER ARANOFF: Do we have on record
10 information as to from where they get the product that
11 they are exporting?

12 MR. GALLAS: That would be under APO at the
13 Commerce Department.

14 COMMISSIONER ARANOFF: Can we get that
15 submitted to us on our record under APO?

16 MR. GALLAS: We can give it a shot.

17 COMMISSIONER ARANOFF: Thank you. I think
18 one of the issues that obviously has been important in
19 this case is the Petitioners have raised the issue of
20 whether we have complete data on the Chinese industry,
21 and while it appears that the numbers that were
22 reported in the questionnaires match up pretty well
23 with official statistics on total imports, at least by
24 some measures, I guess, not by value measures maybe,
25 we really don't know how many producers there are in

1 China, which casts some doubt upon the capacity
2 utilization data that we have in our record. So it
3 would certainly be helpful if you all know who other
4 producers are that are not represented here, if we
5 could have that information.

6 MR. GALLAS: Commissioner Aranoff, if I
7 could speak to that, having been involved in a
8 Commerce proceeding, I will tell you that when the
9 Department of Commerce selected, made its selection of
10 mandatory respondents, the two mandatory respondents
11 selected accounted for the preponderance of exports
12 coming out of China. They captured the producers.
13 The third one we mentioned is just a separate-rate
14 respondent, and its volume pales in comparison to the
15 others.

16 MR. STAPLETON: Could I throw one thing out?
17 Frank Stapleton. As we're dealing with this visa
18 quota issue, we understand that the total amount of
19 visa that's available to the Chinese producers of
20 canvas right now is somewhere in the neighborhood of
21 700,000 kilos, and from what Phoenix has told us, they
22 are entitled to about 480,000 of that. So that will
23 give you an idea of what portion of the total amount
24 that's been granted they have been given, and it was
25 apportioned out by volume.

1 MR. KANTER: And that 700,000 is out of 33
2 million, so --

3 MR. STAPLETON: 3.3 million.

4 MR. KANTER: 3.3. Sorry.

5 COMMISSIONER ARANOFF: Okay. I appreciate
6 all of those answers, and I don't mean to cast
7 aspersions on your statement that what you know about
8 represents the vast majority of production but simply
9 to round out our record, it would be helpful to know
10 who the entire industry is, where the trading company
11 is getting its supply from, and the answers to some of
12 those questions. So thank you, and I'm sorry for
13 going a little over my time, Mr. Chairman.

14 CHAIRMAN KOPLAN: No problem.

15 First, as a matter of course, Counselor,
16 you're correct. On December 1st in your comments on
17 questionnaire responses you did in fact provide a
18 public list of what you claim to be the digital
19 producers.

20 MR. GALLAS: So everyone has been on notice
21 of their identity.

22 CHAIRMAN KOPLAN: Yes. That is my
23 understanding from staff. And I see that counsel for
24 the Petitioners is acknowledging that as well.

25 Thank you for noting that. I double checked

1 with staff and you're correct.

2 If I could come back to the four industry
3 witnesses, it's a two-part question and I'm following
4 up on how I finished up with you all. Am I correct
5 that you claim that subject imports at the entry level
6 are to a different class or kind of customer? If so,
7 what documentation can you provide to show that your
8 sales of subject import products from China are to
9 retail purchasers who would not have purchased
10 artist's canvas except for the availability of the
11 less expensive product from China?

12 MR. KANTER: This is Harvey Kanter. In our
13 case I don't think we could actually provide
14 documentation. I think it's more to the essence of
15 our business concept and how it's evolved. We don't
16 carry the better goods that John Dowers represented,
17 the linen canvas, for instance. We know who our
18 customer is, her approximate age, that 70 percent is a
19 woman. We know that a reference to soccer moms is a
20 reality through store intercepts. And we only offer
21 the opening price and the middle price categories.

22 And as we've expanded the categorical use of
23 canvas, our business has actually accelerated and we
24 believe that is, although we believe it's correlated
25 directly, there are no facts with which to support

1 that other than the growth in the business and the
2 growth in the presentation of the opportunities to use
3 the product.

4 CHAIRMAN KOPLAN: Let me see if I can
5 shorten this. Can any of you provide documentation?
6 Mr. Stapleton, Mr. Dowers?

7 MR. STAPLETON: I don't think it's possible
8 to provide it. I think the documentation that we've
9 been working on internally is that the average, I mean
10 I can provide you the documentation that I've given
11 which is that the average retail store does three
12 percent of their volume in canvas, and if they aim
13 towards this customer they can achieve 15 percent. I
14 can give you documentation on that.

15 MR. KANTER: And actually to Frank's point,
16 without telling you the exact number, he is very
17 directionally accurate with our business. In our
18 business, Aaron Brothers has a very sizeable, sizeable
19 penetration in canvas, and we could provide that
20 information, but it underlines the growth we've had in
21 the business and the change in the assortment as I've
22 described it.

23 CHAIRMAN KOPLAN: Mr. Dowers, Mr. Marek, is
24 your response the same?

25 MR. DOWERS: Yes, ours would be similar.

1 We'd be at about probably five and a half percent and
2 we've seen a growth probably from about four percent
3 over time. This is percent of our total sales.

4 CHAIRMAN KOPLAN: Mr. Marek?

5 MR. MAREK: The only thing that I can add to
6 this is, in that I'm not the buyer for the category,
7 as my testimony pointed out when in fact we did add
8 the Phoenix brand China canvas to our merchandise mix,
9 we had a significant lift to overall business and
10 Tara's business in that year to a previously
11 relatively flat curve. So in effect, when we looked
12 at it and the merchants asked questions about where
13 was this all coming from, I believe that's where that
14 information came and that's the way we marketed the
15 product going forward.

16 CHAIRMAN KOPLAN: Thank you.

17 If I could stay with the group of you, what
18 share of the finished canvas sold in your stores is
19 accounted for by sales to the "less exacting
20 customers" who I assume are what you characterize as
21 beginning students, do it yourself home decorators,
22 and budget minded customers such as mothers of school
23 age children also mentioned in your brief at page 24.

24 MR. KANTER: Harvey Kanter. I don't have a
25 hard number. We believe it's probably somewhere 60 to

1 70 percent. We don't offer most of the professional
2 grade products in our mix at all. The lion's share of
3 our business to those folks would be out of pure
4 convenience. We are located in a multiplicity of very
5 convenient places outside of the city where if you're
6 actually a professional and you need something quick
7 you can come in, but unlike John's place, they carry
8 just a whole host of professional grade products. We
9 don't.

10 CHAIRMAN KOPLAN: Certainly an estimate is
11 acceptable, so I'd ask the other three folks. Mr.
12 Dowers?

13 MR. DOWERS: Yes. John Dowers. Our
14 estimate would be about ten percent of our clientele I
15 guess would be hobbyists and those folks interested in
16 beginning price points.

17 CHAIRMAN KOPLAN: Thanks. Mr. Stapleton?

18 MR. STAPLETON: This would be really
19 gathering information from our customers and I think
20 my guess is that if the customer has done this style
21 of merchandising they might see that perhaps 70-80
22 percent of their volume was for the serious artist or
23 serious student, and the people that have done this
24 style of merchandising would see that it was probably
25 just the reverse.

1 CHAIRMAN KOPLAN: Mr. Marek?

2 MR. MAREK: I'm sorry, I'm not qualified to
3 answer that question.

4 CHAIRMAN KOPLAN: Okay.

5 What type of subject artist's canvas would
6 be purchased by someone decorating a home?

7 MR. KANTER: Can you repeat that one more
8 time?

9 CHAIRMAN KOPLAN: Sure. This is from having
10 read the brief.

11 What type of subject artist canvas would be
12 purchased by someone decorating a home?

13 MR. KANTER: For Aaron Brothers, we believe
14 our product which is not staple side or staple back,
15 but splined, would be the perfect example, and that's
16 probably why our whole assortment looks like that.
17 you can basically paint it and hang it. It requires
18 no frame or anything of that nature. It's not all or
19 nothing as I suggested, but it's more that than not.

20 MR. STAPLETON: It's usually related to that
21 aspect. There's wrapped canvas. But also to certain
22 size and shape configurations, typically squares are
23 appreciated for that particular usage because you can
24 take nine squares, 12 inch squares, and put them up on
25 the wall as kind of a mosaic, painting each one a

1 different color.

2 Another configuration that's really popular
3 for home decor is what they call landscape which would
4 be say 10 or 12 inches tall and 24 to 30 inches wide.
5 Again, you can do very simple geometric painting on
6 those surfaces to coordinate with the color scheme in
7 a house.

8 CHAIRMAN KOPLAN: Mr. Dowers?

9 MR. DOWERS: The only thing I would add to
10 Mr. Stapleton is that a lot of times it's the deeper,
11 thicker size canvases and then also sometimes
12 interesting shapes as well.

13 CHAIRMAN KOPLAN: Mr. Marek? Again not
14 qualified? Okay.

15 Mr. Gallas or Mr. Klett. In your brief at
16 page 24 you attribute much of the asserted increase in
17 demand for artist's canvas in general and subject
18 imports in particular to consumers who are unlikely to
19 purchase canvas at prices generally paid by more
20 exacting consumers. What documentation if any can you
21 provide that these sales are in fact to retail
22 purchasers who could have purchased domestic product
23 but simply chose instead to buy less expensive
24 artist's canvas from China?

25 MR. KLETT: I don't think we can provide any

1 documentation based on solid evidence in the record.
2 I think I have to defer to our customers.

3 CHAIRMAN KOPLAN: I'm only asking because
4 your brief seems to imply that, you have that argument
5 in your brief.

6 MR. KLETT: We do have the argument, but I
7 think the brief supports that through the kinds of
8 statements made by our industry witnesses here that
9 the lower price points generated additional demand to
10 customers that would not have bought at higher price
11 points. That's the documentation.

12 I think there's also documentation we
13 provide in our record that the purchasers, and we
14 provided cites to purchaser questionnaires, where
15 purchasers said that we buy both domestic and we buy
16 imports and our increase in import purchases are in
17 addition to what we buy from U.S. producers. So I
18 think you have documentation in your purchaser
19 questionnaires to support that point.

20 In terms of being able to actually quantify
21 it empirically, we did not do that.

22 CHAIRMAN KOPLAN: Thank you.

23 The public staff report at Chapter 5, page
24 20, reports the findings of the staff concerning the
25 lost sales and lost revenue allegations made by

1 domestic producers of artist canvas. On that page
2 there are six findings reported. Five of the six
3 purchasers reported shifting at least a portion of
4 their purchases of artist's canvas from U.S. producers
5 to subject imports from China.

6 Taken together it appears to me that
7 purchasers have switched a significant share of their
8 purchases of artist canvas from domestic producers to
9 subject important.

10 Can you respond to that?

11 MR. KLETT: I can't respond to each of the
12 specific ones, but just some general points.

13 CHAIRMAN KOPLAN: The specifics are BPI.

14 MR. KLETT: That's right. But just in
15 general, a couple of general observations, Mr.
16 Chairman.

17 I think you need to look at number one,
18 where that purchaser was buying from in terms of
19 whether it was, for example, Mexican produced versus
20 U.S. produced. Mr. Kanter, for example, well, I won't
21 get into that.

22 Also I think there are a number of lost sale
23 allegations there where there's a, in the right hand
24 box it says no response and I think there actually is
25 information in the record that you can make some

1 inferences for those customers in terms of what their
2 actual response to the allegation based on looking at
3 their purchaser questionnaires or whatever.

4 I'd be happy to go through customer by
5 customer in our post-hearing brief.

6 CHAIRMAN KOPLAN: I'd be happy for you to do
7 that. Thanks.

8 Vice Chairman Okun?

9 VICE CHAIRMAN OKUN: Thank you. And again,
10 than you for all your responses.

11 Mr. Dowers and I guess Mr. Marek, for
12 companies, for purchasers who are purchasing domestic
13 product along with imported product, you're the two in
14 that case, right? And post-hearing you can look at
15 those again, purchasers who have done this.

16 My question is, a lot of your argument is on
17 the attenuated competition and that's why I think
18 we've had a lot of questions about which products are
19 produced in the United States by U.S. producers versus
20 China. And I heard I think Mr. Stapleton, you used
21 the word complementary in describing it. That what you
22 were trying to propose to the domestic industry was a
23 complementary approach where you saw it as not cutting
24 into their business and in fact increasing the pie for
25 everyone.

1 I think it's possible to look at this record
2 and say in fact the pie has increased. Consumption is
3 up. So while market share for the domestic producers
4 is down, the pie is bigger.

5 What I'm having a hard time trying to sort
6 out is whether that's likely to continue if I were
7 looking forward, and then looking at the record we
8 have whether we see impact from the imports.

9 So I'm most interested for those who
10 continue to buy domestic whether you can provide
11 additional information post-hearing on which products
12 you're buying from domestics, which products you're
13 buying from subject imports, for me to help better
14 understand where they're the same and where they're
15 not if there really is distinctions, and then help me
16 understand what pricing has done during the period of
17 investigation. In other words if the domestics have
18 come in for your same product, for the product line
19 that you're buying from them, if they've come in and
20 increased prices and you've paid them, despite the
21 fact that you were also carrying a subject import
22 line.

23 Is that information you can provide? Is it
24 information that you can glean from the other
25 questionnaires? Mr. Klett, I'll ask you that first.

1 MR. KLETT: I'll have to look at the
2 purchaser questionnaires. I may be able to glean some
3 information from the purchaser questionnaires to the
4 extent some of these folks here submitted them. I can
5 attempt to answer your question through a review of
6 those questionnaires.

7 VICE CHAIRMAN OKUN: Okay. I'm less
8 focused, obviously we all take our different
9 perspectives into here, of proving which customers are
10 buying what, but I am interested in are you still
11 selling as much and more of what the domestics are
12 selling at the same time you have subject imports in
13 the market because that might demonstrate to me that
14 it is in fact a pie that's growing and that subject
15 imports at a price point are going to continue to keep
16 this expanding market. That may not be enough
17 causation for me personally.

18 But I'm having a hard time sorting that out
19 because on the one hand you've argued domestics don't
20 produce the same stuff, and I'm looking to the product
21 list and trying to figure out is that true or is it
22 because like the spline product was a Mexican product
23 that had quality problems and that's why you went
24 somewhere else.

25 So I'm still having a lot of trouble sorting

1 out is it not the same products or is it really a
2 complementary market in some aspect in the stretched,
3 I guess. Then for the bulk and the digital, there are
4 other arguments to be made there.

5 MR. KLETT: Commissioner Okun, just one
6 observation. To the extent you do see some declines
7 in consumption of U.S. produced, an element of that
8 is, or could be the shift from the U.S. to Mexico as
9 well so there's that added dimension of looking at
10 this --

11 VICE CHAIRMAN OKUN: Which is why I'm asking
12 for that additional information which is I can take
13 that. But again, number of production workers and
14 other things can go down when someone decides to shift
15 to Mexico. But I'm still trying to sort that out
16 versus some of the information which you've testified
17 to which is if they had quality problems with a
18 product that would have been a competing product that
19 Tara was offering and it was a product being produced
20 in Mexico, again, it could be a legitimate business
21 decision to say I'm going to take the Chinese one
22 instead, but I'm trying to link that up with again
23 what we have in the record, what we have in the record
24 on financials to see if it's, in my view, consistent
25 with your argument of complementariness or attenuated

1 competition in this industry.

2 Mr. Dowers?

3 MR. DOWERS: I'll speak for Utrecht. If the
4 data, whatever data Dan needs we can easily supply to
5 him because we've got scan data on a pull-through
6 basis and we can clearly identify this as domestic or
7 imported and be able to show those segments so you'd
8 be able to see fairly clearly that in fact the total's
9 grown and in fact there is a complementary nature to
10 the products that your offering a wide range.

11 Again, ours would skew closer to the fine
12 artists than say Michaels or Aaron Brothers, but with
13 scan data that's easily made available.

14 VICE CHAIRMAN OKUN: Okay.

15 Then Mr. Klett, I wanted to come back to you
16 on the argument with regard to whether those companies
17 who are producing the digital print should be
18 considered included in the domestic industry. I know
19 you've covered it in a number of responses.

20 But you said something in one of the
21 responses saying this was a case where you don't have
22 an integrated producer, you essentially have to
23 include all of the converters who have someone
24 producing the like product. I was trying to think
25 through that in a case where if the like product is

1 both what we're calling bulk and finished whether that
2 makes sense to me. That would be the first point.

3 The second point would be can't we logically
4 draw a distinction between a converter who qualifies
5 as part of the domestic industry and someone who's
6 maybe slapping something on with little --

7 To me it seems very factual whether we
8 decide to include the digital print side converters as
9 opposed to being forced to because Tara isn't doing
10 all of that.

11 MR. KLETT: The reason I made that argument
12 was if you look at your preliminary opinion there's a
13 statement in there talking about canvas kits. It says
14 canvas kits are part of the like product and canvas
15 kits are part of the scope and therefore we have to
16 find a U.S. producer of canvas kits and if we can't
17 find a U.S. producer of canvas kits we have to find
18 something comparable.

19 So I think the same logic applies. If you
20 have digital print canvas as part of your like
21 product, part of your scope and part of your like
22 product, then you need to attempt to find a U.S.
23 producer of digital print canvas, using the same logic
24 that you applied with kits in your preliminary
25 determination.

1 What I'm saying is that if the only
2 producers of digital print canvas are converters, then
3 that's the part of your U.S. industry producing that
4 like product.

5 VICE CHAIRMAN OKUN: Maybe it's a little
6 circular then because again you have to decide whether
7 to include producers --

8 MR. KLETT: And the distinction I was making
9 was that when you typically have a situation where you
10 have a decision as to whether to include converters or
11 fabricators or not, you have both integrated producers
12 and you have converters. So even if you were to
13 decide not to include the converters, you still have a
14 domestic producer of the like product.

15 If all you had were the converters and you
16 didn't include them, you wouldn't have a producer of
17 the like product. That was the logic I was trying to
18 convey anyway.

19 VICE CHAIRMAN OKUN: I see what you're
20 saying.

21 MR. GALLAS: Can I?

22 VICE CHAIRMAN OKUN: Yes, MR. Gallas.

23 MR. GALLAS: I would just add, putting aside
24 that issue that it's difficult to grasp and going back
25 a bit, and then going back to the basic value added,

1 more traditional analysis, in responding to your
2 earlier question I believe it was Mr. Benator who
3 admitted that Tara formerly engaged in digital print
4 conversion and he admitted in his response to you that
5 not only was there a proprietary coating applied, but
6 also additional equipment which strongly belies the
7 claim that this is just some coating slapped on and
8 it's minimal. I mean you do have data in the record
9 from the digital print producers who did respond. You
10 can see for yourself the value added, and one of them
11 relayed the production steps. We spelled that out
12 also in the brief.

13 But I think it's clear that if you have a
14 proprietary coating that itself has to encompass a lot
15 of R&D and if it requires additional equipment, then
16 there is additional production.

17 VICE CHAIRMAN OKUN: Commissioner Aranoff
18 may have already asked you all to brief, as she did I
19 think the earlier panel, which is when looking at this
20 particular issue of whether the converters of each of
21 the products which is converted in some way should be
22 included as a domestic producer through our
23 traditional analysis of that, but also compare that to
24 the converters of the domestic industry would agree
25 should be in there so that we can have a comparison of

1 those as we evaluate it.

2 With that, I don't think I have any further
3 questions, as I know the textile question's going to
4 be covered. So thank you very much for all your
5 answers.

6 CHAIRMAN KOPLAN: Thank you.

7 Commissioner Hillman?

8 COMMISSIONER HILLMAN: Thank you.

9 Just a brief question while we're on this
10 issue of the inkjet product. Two other issues that I
11 wondered if you could also add into this briefing of
12 this. One would be whether the Commission should as a
13 legal matter make any distinction if on the domestic
14 side of it, to the extent that there is production of
15 product it's done under a toll basis as opposed to a
16 complete sale of the substrate to an independent,
17 unrelated company that then put the inkjet coating on.
18 If that were to be the situation does it change the
19 factual matter given the Commission's normal practice
20 of treating toll production as clearly part of
21 domestic production. So as a legal matter to brief
22 that.

23 Then as a factual matter, whether what we
24 should make of the fact, we heard the testimony this
25 morning that you just referenced, Mr. Gallas, in terms

1 of the expense of the equipment and the proprietary,
2 et cetera, nature of this inkjet coating. If the vast
3 majority, as I understand it, of the time what's being
4 coated is not in fact artist's canvas, it's normal
5 photographic paper. In other words the same equipment
6 that these inkjet people are using, the vast majority
7 of the time it's not going to make this product, it's
8 going to make whatever, the photographic stock stuff
9 as opposed to artist's canvas that's coated. Help us
10 --

11 MR. GALLAS: May I respond to that last
12 point, Commissioner Hillman?

13 COMMISSIONER HILLMAN: Sure.

14 MR. GALLAS: As your preliminary opinion
15 observed, all artist canvas is used as a medium for
16 the graphic expression of art and your preliminary
17 says particularly involving paints or inks. That was
18 the point. That it also encompassed whatever creative
19 surface was being applied to this canvas. It doesn't
20 change the fact that the Petitioner who divined the
21 scope of this case included digital print canvas. In
22 the myriad of products it's all -- And what is
23 happening here as far as like product, it is all a
24 myriad of products without a bright line under the six
25 factor test.

1 I think you have here one like product and
2 also one industry, and in that one industry is
3 included these people. It doesn't matter if they put
4 a photograph on that surface and then hang it on their
5 wall or if they apply paint. It is still canvas used
6 for the same basic end use and all of the other
7 factors, there are more similarities, commonality as
8 you have used the term of the six factors, than
9 differences here with the digital print canvas. We'll
10 address that further.

11 COMMISSIONER HILLMAN: I understand the
12 point on the like product. It's not as clear to me
13 when we then get into the who is included within the
14 domestic industry whether it is appropriate to include
15 someone for whom this is a very small part of what
16 they do is putting this coating on top of canvas as
17 opposed to putting it on photographic paper.

18 MR. KLETT: Commissioner Hillman, I think
19 the data is broken out that way factually. The people
20 that provided data to you on their digital ink
21 operations I think provided you or they should have
22 provided to you the data with respect to their capital
23 expenditures and depreciation and employees and what
24 not just with respect to the production of the digital
25 ink canvas.

1 So even if that company may be, maybe that
2 company may take the digital ink canvas and put a
3 photograph on it or may run digital paper through the
4 same coating machines, they should have reported data
5 to you that was specific to just the digital print
6 canvas.

7 So there's a lot of situations where you
8 have companies that do a lot of things, but they were
9 asked to report to you data just for the subject
10 digital ink canvas, and we're presuming that's what
11 they reported to you.

12 COMMISSIONER HILLMAN: I'll take a look at
13 it, but if there's anything on these issues you want
14 to add in the post-hearing brief, I would welcome
15 that.

16 If I can then go back to the textile side,
17 just because I am trying to make sure I understand the
18 nature of this restraint on the quota side. And maybe
19 it's that I need to understand how the Chinese, why
20 and how from your perspective the Chinese are choosing
21 to do the allocations the way that they're doing them,
22 because as I understand it there were no effective
23 restraints after the quota was lifted in 1998 until
24 2006. So presumably if you look at historical trade
25 in this category, it would have been arguably

1 unrestrained between '98 and 2005. And then as I
2 understand it what was negotiated was take whatever
3 the total level was in 2005, give it a 15 percent
4 uplift, put a quota on it at that level for 2006, give
5 it another 15 percent uplift for 2007 and another 15
6 percent uplift or whatever the numbers work out to
7 2008 with all your requisite swing and carry forward
8 and carry over and all that standard textile stuff in
9 there.

10 I'm still struggling with why then the
11 allocations come out the way they do in terms of what
12 you're describing as only 700,000 kilograms in a 33
13 million kilogram category in which there's a lot of
14 other stuff that I would not have presumed was heavily
15 traded prior to now. I'm trying to understand why
16 this is as strong a restraint as you are describing it
17 to be.

18 MR. STAPLETON: This is Mr. Stapleton
19 talking.

20 First of all, it's 3.3 million, not 33
21 million. 3.3 million is what our supplier estimates
22 they need in order to ship last year's amount of
23 canvas to the U.S..

24 COMMISSIONER HILLMAN: Like I said, it's one
25 of these ones where I'm looking at the Annex 1 of the

1 agreed levels of certain products in the China
2 Bilateral Textile Agreement under Category 229, and it
3 tells me that the 2006 level is 33,162,019 --

4 MR. STAPLETON: That's the total okay.

5 COMMISSIONER HILLMAN: Total.

6 MR. STAPLETON: I'm just saying for --

7 COMMISSIONER HILLMAN: I'm just trying to
8 understand how do we get from there to the allocation
9 for canvas.

10 MR. STAPLETON: I can't really speak for the
11 Chinese government, but I think I have an idea of how
12 they've done it. Basically they said let's take all
13 of the kilos of these various categories that were
14 shipped into the United States and let's find a way
15 to, and I believe that the quota was set up to match
16 so that there was not an increase in shipments into
17 the U.S. in that aggregate group of products. So that
18 number being 33 million or whatever the number you
19 gave was the number that they did not want to exceed.
20 They didn't want to put any more pressure on the U.S.
21 industries in those categories. So they set that
22 number up.

23 Now the subset, which is artist canvas,
24 added up to what did I say, 740,000 kilos. That's
25 what the artist canvas portion was and that's what the

1 Chinese governments aid to all the Chinese exporters
2 to the U.S., this is what's going to be available for
3 you in allocated visa. The visa is the mechanism by
4 which they control it.

5 So they allocated out, and I'm just taking
6 Phoenix's case. They allocated 480,000 kilos to them.

7 Now why is there a difference? Not between
8 the 33 million, because I can't answer that. I don't
9 know what all the other categories are. But the
10 difference between our 3.3 million of what we say is
11 needed for Phoenix alone versus the 480 that they've
12 been allocated. What's the difference between those
13 two? And I'll explain that.

14 Tara knows about this and they could
15 probably explain it better than I can because they
16 were involved in 2001 in this issue and we still had
17 it on at that point. And I think you'll dig into this
18 and you'll find that I'm right on this.

19 The U.S. Customs Department has decided that
20 the product itself is the determining weight, for the
21 finished product, the determining weight for the
22 quota. Now in the case of stretch canvas, any one of
23 these products you'll see, there is a little bit of
24 canvas stretched over a lot of wood.

25 If you take a pair of pliers and you strip

1 off the canvas and you weight it on a scale, and then
2 you take the total before that and add it up, you're
3 probably going to find out that something like 95
4 percent of it is not canvas.

5 China was reporting to the U.S. the total
6 number of kilos of canvas in our category to Customs,
7 but Customs says to hell with that, what we want is
8 the total weight of the product.

9 So now we have something like, it's 88
10 percent more in visa that we need in order to satisfy
11 the total, and we're caught in a meat grinder right
12 now.

13 COMMISSIONER HILLMAN: I appreciate that.
14 That is very interesting.

15 Is it your perception that there is anything
16 that you can do to the canvas to substantially
17 transform it by enough that it no longer counts under
18 the 229 quota? In other words you would have the
19 tariff shifted into another tariff category?

20 MR. STAPLETON: We've thought of that. Send
21 it to Mexico, have it stretched there, all kinds of
22 stuff. There's no way to do it. You can bring the
23 canvas separately. We've been in touch with a Customs
24 attorney on this thing and it is very dangerous for us
25 to play with any of these concepts. No, there aren't

1 any. As far as I am aware.

2 COMMISSIONER HILLMAN: It's very interesting
3 to me that that's how they're choosing to do the
4 weight in terms of how they're doing the allocation.

5 MR. STAPLETON: We have a letter actually
6 that we can supply to you that actually was written in
7 2001 for our Customs attorney in Chicago explaining
8 this, and it just went off right after so we didn't
9 have to deal with it. But they were explaining the
10 whole process of how this was. The precedent was set
11 in tents, tent stakes, the tent itself. It's
12 considered the aggregate tent that you're buying, not
13 the canvas in the tent.

14 Welcome to our world, is all I can say.

15 COMMISSIONER HILLMAN: Part of this
16 obviously is there are just so many different fabrics
17 that are within this category of specialty fabric, I
18 would assume the majority of which from looking at
19 what they are, are sold as a fabric. Again, without
20 any of the wood, grommets, et cetera, et cetera
21 embellishment. So you're in this odd end of this odd
22 category product.

23 I'm still struggling with why did we end up
24 with a quota back on a product that has not ever been
25 viewed as import sensitive.

1 MR. STAPLETON: I would love to understand
2 that as well.

3 COMMISSIONER HILLMAN: I was hoping you
4 could tell me.

5 MR. STAPLETON: I wish I could. The
6 government is arcane. We didn't even know you existed
7 before this thing.

8 (Laughter).

9 COMMISSIONER HILLMAN: I appreciate those
10 answers.

11 MR. GALLAS: I will look into it.

12 COMMISSIONER HILLMAN: Thank you.

13 CHAIRMAN KOPLAN: Thank you.

14 Commissioner Lane?

15 COMMISSIONER LANE: Thank you.

16 I think my question is for Mr. Kanter.

17 In response to a question from Commissioner
18 Aranoff you referred to multiple costs that you
19 incurred dealing with imports. you mentioned
20 inventory costs, cash flow costs, port related costs,
21 and maybe others. We generally take great pains to
22 make sure that questionnaire responses on pricing
23 reflect price at the same point in the supply chain
24 for both import prices and domestic prices.

25 Are you suggesting that the pricing data we

1 received is not reflective of wholesale prices at
2 comparable points in the supply chain?

3 MR. KLETT: Commissioner Lane, this is Dan
4 Klett.

5 I'm not sure Mr. Kanter knows --

6 COMMISSIONER LANE: I'm sorry. I thought he
7 was the one that answered Commissioner Aranoff.

8 MR. KLETT: He was, but I'm not sure he's
9 aware of how the data was collected in your
10 questionnaires in terms of being able to respond to
11 whether it's reflective of comparable pricing at a
12 comparable point of distribution.

13 So if I could answer, and then if Mr. Kanter
14 wants to confirm or amplify.

15 We have no problems with the data as
16 collected in terms of being comparable. The only
17 caveat to that is that we don't think the pricing
18 broken out by distribution channels is accurate. But
19 in terms of, and it's not because of the way you asked
20 the question, it's just based on the way some of the
21 data were reported.

22 But in terms of the accuracy of the data
23 with respect to being collected at a comparable point
24 in terms of excluding inland transportation costs and
25 all factors like that, we have no criticisms with the

1 data.

2 MR. STAPLETON: Excuse me. This is Mr.
3 Stapleton. Could I just quickly throw something in?

4 There's a huge difference if you take, and
5 this was not reflected in the information that was
6 gathered. There's a huge difference in the way
7 product that's imported, as large a product as is
8 imported from China on stretch canvas compared to
9 buying it from a domestic supplier. I'll take a quick
10 instance and that is Masterpiece. Masterpiece is
11 located in San Francisco. Our warehouse is in Reno.
12 It's 140 miles away. We can order on a weekly basis
13 from them and carry very little on hand. The less you
14 carry, the less space it requires so the square foot
15 in your warehouse needs to be much larger.

16 The second thing is the longer you carry it.
17 The longer you have to carry it because of the lead
18 time that's required, the more gets damaged. It
19 sounds crazy, but there's an inventory term for it
20 that's called the K cost.

21 COMMISSIONER LANE: Called what?

22 MR. STAPLETON: K cost, the letter K. It's
23 usually figured at about 25 percent of the value of
24 the product. It really has to do with things like the
25 amount of space, the amount of time, and what can

1 happen over time to a product, and that was not
2 reflected in any of the questionnaires that we had to
3 fill out.

4 MR. KANTER: Commissioner Lane, I do want to
5 go back.

6 My interpretation of the question relative
7 to what I thought I was asked versus what you just
8 asked. I was not referencing the documentation was
9 wrong, I thought what I heard was what is the retail
10 value or price point of that and what is the cost
11 value and has there been a specific reason you went
12 overseas. I tried to articulate the cost basis of --
13 The first cost basis is not necessarily the same as
14 the landa [ph] cost basis and the reason we went
15 overseas. Whether that's clear or not, more clear now
16 I don't know.

17 But relative to Dan's point, I was actually
18 answering a different question, or so I believed.

19 COMMISSIONER LANE: Okay, now this morning I
20 asked a question that apparently I didn't ask very
21 well and I certainly wasn't sure that I understood the
22 answer. Then Commissioner Aranoff asked the same
23 question much better than I did, but I didn't
24 understand the answer that she got either. So I'm
25 going to try again. I'm going to start with Mr.

1 Stapleton, just because you've been so nice that I
2 think we'll give you a shot at this.

3 (Laughter).

4 If I buy a Chinese import canvas and I pay
5 \$2 for it and I go to Tara and I buy the same canvas
6 and I pay \$4 for it. Then I decide to sell it in my
7 retail outlet. What kind of markup do I put on both
8 the Chinese and the domestic product? Do I then sell
9 both of them at \$6? Or how do I price those two
10 products, knowing that my cost basis is different.

11 MR. STAPLETON: Let me take a stab at that.
12 I'll take a retail price. Let's take a \$10 retail
13 price.

14 A \$10 retail price would have the consumer
15 buying that product from us at about \$3. I mean not
16 the consumer, the retailer would buy it for about \$3.
17 For sake of the illustration, the Tara product, same
18 item, would be sold for \$8. That would be the \$8
19 retail.

20 So what we would recommend to the retailer
21 is to take the \$10 retail which is inflated, they
22 described it that way and it's true --

23 COMMISSIONER LANE: And that would be for
24 both products?

25 MR. STAPLETON: It's the same thing. No,

1 theirs in theory is not an inflated price. It's their
2 product at \$8 versus our \$10 reflects, I don't know
3 what they put into it. But ours is sort of pegged at
4 we want to be priced above theirs, but the trick is
5 that we want to have the retailer offer a 40 percent
6 discount off of that \$10. So now we're at \$6 is what
7 that product would sell for.

8 So typically, if you went to look at
9 Michaels as they promote Fredrix canvas, they're
10 offering the \$8 item most of the time at a 25 percent
11 discount. So take \$2 off of that.

12 COMMISSIONER LANE: Then the \$3 Chinese
13 product and the \$8 U.S. product are both selling
14 retail for \$6.

15 MR. STAPLETON: That's right.

16 COMMISSIONER LANE: That's the answer to my
17 question. Thank you.

18 I have no further questions.

19 CHAIRMAN KOPLAN: Thank you, Commissioner.
20 Commissioner Pearson?

21 COMMISSIONER PEARSON: Earlier I believe
22 someone on the panel had indicated that there was
23 Mexican production the U.S. market prior to when
24 Chinese product began entering the U.S. market in any
25 quantity. Is that a correct statement? And can you

1 document that?

2 MR. KLETT: I'll have to look at the import
3 statistics. I know the first year that the Mexican
4 product was in the market was, at least based on
5 census data, was 1997. I don't know if there was
6 definitively no Chinese imports at that time. But if
7 they were, they were very very small. So I can look
8 at the census statistics over that comparable time
9 period and provide the information to you.

10 COMMISSIONER PEARSON: Mr. Gallas?

11 MR. GALLAS: I would just add that in our
12 pre-hearing brief we did give the chronology and go
13 into more detail and we used proprietary data on the
14 record.

15 So you will see in that brief the
16 chronology. And the census statistics -- Basically
17 the decision to move was prior to China being a true
18 factor in the market.

19 COMMISSIONER PEARSON: Okay, I will go back
20 and look at the brief. We've heard a lot of things
21 here today so I forget what I know or what I think I
22 know or what I ought to have known but forgotten.

23 But it's a relevant issue for causation in
24 terms of trying to understand what have been the
25 effects of Chinese imports on the domestic industry.

1 So if you have anything based on today's testimony,
2 anything that you would add to the record to clarify
3 it further, by all means please do that.

4 Mr. Dowers, you had mentioned quality issues
5 as one of the reasons that Tara, your relationship
6 with Tara deteriorated. The question that I have is
7 were those quality problems coming from Tara products
8 produced in the United States or produced in Mexico or
9 both? Or don't you have any way of telling.

10 MR. DOWERS: I don't have any way of
11 telling. I don't know if we, Tara took some of the
12 goods back. They may have better records than we did.
13 I don't recall differentiating between the two, it
14 just occurred around the time that apparently
15 increased production was occurring. But that's more
16 knowing that now than it was knowing it then. But we
17 did not as part of our reconciliation and cleanup
18 differentiate between the two products.

19 COMMISSIONER PEARSON: Okay.

20 Another question then, there was a period of
21 time late in 2005 between when the preliminary duties
22 had gone into effect and when the textile quota issue
23 became a problem at the start of this year.

24 What was happening in the marketplace then?
25 Was Chinese product still coming in? Has it been

1 coming in, paying the duty, and business has been
2 going forward?

3 MR. KANTER: Yes, actually it is really, I
4 wouldn't say our exclusive resource, but it is our
5 single greatest resource. We have continued to do
6 that and until literally last week we were not
7 negatively impacted by the quota. At this point
8 Phoenix does not have enough quota to ship the orders
9 that exist on the books, yet alone the future orders.

10 In specific reference to our order flow, I
11 believe the documentation would support this, and if
12 it does not we should make sure it does in terms of
13 providing you the facts, but our order flow has not
14 changed materially other than in line with our
15 business trend. So we haven't pushed any extra orders
16 in from China or slowed them down to deal with the
17 duty. We've just addressed the business needs from a
18 demand basis.

19 COMMISSIONER PEARSON: Any other comments?

20 MR. MAREK: Alan Marek. I'd like to add to
21 that that Michaels has taken a similar posture.

22 Tara is by far and away the majority of our
23 skews carried from and the majority of our business.
24 The amount of imports that we've pulled in from China
25 to satisfy our marketing needs has not changed

1 significantly because of any of these proceedings
2 since the initial filing was made. All we're doing is
3 bringing in what we need to satisfy our marketing
4 initiatives.

5 Up until the imposing of the quota where at
6 this point we don't have an idea as to whether or not
7 we'll see another order from China.

8 COMMISSIONER PEARSON: In the hypothetical
9 situation in which there was not the textile quota
10 problem and there was an antidumping duty in effect as
11 per this hearing, what would be happening in the U.S.
12 market? Would we see continued imports from China
13 just because as you look around the world there is no
14 other source in the near term that could fill the
15 market niche that the Chinese product now is filling?

16 MR. KANTER: I believe at some level that
17 would be a true statement, and we have obviously
18 addressed our retail pricing to deal with the negative
19 margin impact. We've seen an increase in retail sales
20 greater than unit sales because obviously a customer
21 seems to be somewhat negatively reacting to the
22 increased retails, but it's still growing, just not as
23 fast. And we at this point, no different than I said
24 before, don't have an alternate source at all at this
25 moment in time. To set that up, we drive the

1 specifications, the quality, the production line
2 actually through Alan, and we would have no
3 alternative other than a longer term horizon.

4 MR. STAPLETON: Can I throw something out?

5 COMMISSIONER PEARSON: Please.

6 MR. STAPLETON: One of the people who was
7 involved in our group in the preliminary is no longer
8 here and they have essentially given up on this
9 process in favor of leaving China as a sourcing place
10 and going to India.

11 So there are all kinds of things on the
12 table. I can speak for my company only. We're
13 staying with China just in hopes that some kind of
14 result that is sort of less onerous than sort of
15 initially appeared was going to be the result.

16 Of course now that the quota's in place it's
17 sort of like a moot question. The only reason that
18 we're hanging here now is in the hopes that we might
19 get our tariff money back. That's really, and it's
20 considerable.

21 COMMISSIONER PEARSON: Are you suggesting
22 that this industry is flexible enough so that if China
23 becomes a non-competitive supplier due to quota
24 reasons or others that somewhere in the world there
25 would arise other competitive producers of artist

1 canvas? And that you --

2 MR. STAPLETON: Without a doubt.

3 COMMISSIONER PEARSON: -- from India or from
4 other countries?

5 MR. STAPLETON: Without a doubt.

6 COMMISSIONER PEARSON: over what timeframe
7 would you expect that type of change to happen?

8 MR. STAPLETON: That supplier that I'm
9 speaking of that was herein the preliminary, they're
10 saying that two four they'll be up and running and be
11 able to ship canvas from India. They already have a
12 color manufacturing facility there and their partner
13 in that facility has wanted to get a canvas program
14 going and it just provided the perfect opportunity for
15 them to jump on that particular thing.

16 MR. KANTER: Commissioner, I think I might
17 paint it slightly differently.

18 For Aaron Brothers it is not as easy to
19 move. I know who he's referring to. they are
20 primarily a branded resource. We do not do private
21 label business with them. The brand is very important
22 that they represent but we would look at a longer term
23 horizon. At some point we would obviously try to
24 evaluate our options, no different than the reason we
25 have made the actions we've taken today, but it would

1 not be a very quick move for us. It's a very sizeable
2 part of our business.

3 MR. DOWERS: Commissioner, I can speak to
4 that as well. We did after, after actually purchasing
5 our product from China through Mr. Stapleton and
6 MacPhersons after we left Tara, and then went, we
7 believed that a significant tariff was potentially
8 going to be put in place. We actually shifted ours,
9 which again was a smaller quantity relative to some of
10 the others here to India. And that did take time
11 actually to find someone who could actually meet our
12 demand and begin to ramp up. So I would say probably
13 you're looking at a year or two before someone could
14 significantly handle some of the demands that the U.S.
15 market would put on that.

16 And typically in a couple of stages, one,
17 first from a labor standpoint, getting trained labor
18 in place and then moving towards a more capital
19 intensive solution which is exactly what our Indian
20 supplier plans on doing to enhance the size of his
21 operation.

22 COMMISSIONER PEARSON: Thank you.

23 Mr. Chairman, my time has expired.

24 CHAIRMAN KOPLAN: Thank you, Commissioner.

25 Commissioner Aranoff?

1 COMMISSIONER ARANOFF: Thank you, Mr.
2 Chairman.

3 One of the arguments that you all make in
4 your brief and that we have heard from you this
5 afternoon is that the artist canvas market in the U.S.
6 has expanded largely because of these innovative
7 marketing and pricing strategies that you've adopted.
8 One of the things that I'm not sure that we've yet
9 pinned down is -- We saw the pictures at the beginning
10 of the testimony of placing the canvas one way versus
11 the other way. And there's nothing about that
12 placement that inherently requires the importation of
13 Chinese product as opposed to just turning around the
14 domestic product.

15 So I guess my question to you is, wouldn't
16 this have grown the market even if there were no
17 Chinese product? What's the link that necessitates
18 the Chinese product with respect to the marketing
19 program? Because as far as I can tell, it expands it
20 to a lower price point and that's the only thing
21 that's unique.

22 MR. STAPLETON: Frank Stapleton, let me try
23 to answer.

24 We have evangelized this concept, the three-
25 part concept, and it really required us to have

1 canvas. Commissioner Lane asked me to sort of go
2 through the economics of a individual product, but if
3 we come down to the \$3 on that \$10 retail item that we
4 had, we actually have as an importer, or as a buyer of
5 domestic product, we have to have a margin in that.

6 At that point we're acting like the prime
7 supplier, the importer, and we're reselling it to
8 retailers.

9 So if that concept is going to be sold to
10 retailers and it's not intuitive for them. Most
11 retailers will say huh uh. Canvas is a destination
12 purchase. When an artist gets an inspiration they
13 make a note to come down to the store and it doesn't
14 matter where the product is in the store, they'll find
15 it.

16 So we're kind of swimming upstream with the
17 retail community to try to sell them on this idea.
18 And we can't sell them on the idea of an inflated
19 retail price and a shorter profit margin for them.
20 There has to be at least the same profit margin they
21 would get if they were buying it on kind of the old
22 model which is buy from Tara at approximately 60
23 percent off of the retail price and mark it up to the
24 retail price and offer sales of 25 percent off
25 regularly. So that wouldn't work if it was coming

1 through us.

2 So we needed to have some way that we could
3 participate in this thing. And I mentioned that we
4 got together with these guys in 1990 and we didn't
5 actually come on with the program until 2001. I
6 couldn't find a way to do the math until China came
7 on-line. Tara wasn't interested in participating and
8 it wouldn't have worked with Masterpiece. It needed
9 something else. I'm only describing ours.

10 COMMISSIONER ARANOFF: When you say Tara
11 wasn't interested, one interpretation that I could put
12 on Tara wasn't interested is Tara, there's no inherent
13 reason why Tara couldn't produce a 12x12 product which
14 is one of the new ones you were talking about. In fact
15 I think we see it on one of their lists.

16 MR. STAPLETON: And they did.

17 COMMISSIONER ARANOFF: Right. It's not that
18 they can't make any size, shape or level of quality. I
19 could interpret it as saying it's because in the range
20 that you're offering, at the bottom of that range they
21 can't make any money off of selling you a product that
22 will sell for as low a price as you want to sell it.

23 MR. STAPLETON: But I don't think they gave
24 it any thought, I really don't. I think that like the
25 retailers who blow me off, have blown our sales people

1 off, basically saying it's a destination purchase and
2 don't bother me with this rigmarole about presentation
3 and discounting off the list and all this other stuff,
4 oh, and the exploding market. You know, it takes some
5 swimming upstream. You have to have some vision and
6 belief that this thing is actually going to result in
7 this.

8 I was not able to convince them. And the
9 art stores who at a certain point they were selling
10 to, the numbers did not speak to them. I heard from
11 the proprietor of the art store that Tara was blown
12 away at the numbers that were doing through the art
13 store in canvas, yet they didn't string the dots
14 together. They didn't say gee, what made up this
15 magic that sort of explodes your sales? They chose to
16 ignore it and to be a producer.

17 This is America and you do whatever the heck
18 you want if you're in business, and they chose to do
19 something. They chose not to jump on this thing.
20 They chose when presented with a concept to present
21 inflexibility. To me that's a hallmark of what we're
22 dealing with here. We have two people that are part
23 of this petition in a field of ten people. That maybe
24 tells you something.

25 COMMISSIONER ARANOFF: I understand what

1 you're saying, but I guess I'm thinking even if that
2 were true back three, four, ten years ago, that they
3 didn't see the potential, that it's pretty obvious now
4 that this concept is working. You would think that a
5 wise business person would admit to the error of their
6 ways and try and turn things around. And yet what
7 they're telling me, what I heard from Tara this
8 morning was the low end product, the low end imported
9 products are selling for less than our cost or
10 production. So even if we buy the concept we can't be
11 part of the program because we can never serve that
12 part of the market.

13 MR. KANTER: Commissioner, there's a couple
14 of things you said I would love to try to enunciate.

15 The direct answer to your first question is
16 yes, relative to price. There is a relevance to the
17 price but that is only one component of a multi-
18 component answer. The reality is first of all,
19 Fredrix or Tara is selling branded goods, number one.
20 Number two, the whole concept of what we're talking
21 about presenting has many more components to it.

22 The price that we retail it out is not the
23 opening price exclusively, so our import program is
24 not just the opening price. There is absolutely in
25 the marketplace canvas priced below our product. Our

1 product inherently is more expensive than opening
2 price because of the manufacturing, the spline versus
3 staple sided. But in addition to that we carry the
4 opening, if will, spline program which is, I don't
5 know on a quartile basis probably in the second
6 quartile. But then in addition we carry what was
7 referenced today multiple times as the deep well
8 canvas which is probably the second from the top
9 quartile. We don't carry the highest level because
10 that would be then different fabrications, i.e., linen
11 and things of that nature.

12 But a couple of times we've referenced that
13 China is opening price and the cheapest product, and
14 it's not. In our case we spec it out specifically to
15 what we want. One component of that is the value, the
16 price/value equation about what the product specs are
17 and what you pay for it.

18 But then among other things you have from
19 Aaron Brothers an exhibit which actually articulates
20 what Frank has continued to say in a more modern
21 context, which is this wall with the stuff phased out,
22 and if you were to look at the later Aaron Brothers
23 exhibit you can see there's a wall and it has words
24 like inspire and draw and paint and art and create
25 because that's the concept that we're selling, and

1 we're actually charging somewhat slightly more money
2 because it's private label branded Aaron Brothers, and
3 it's under the impression that it's only available at
4 Aaron Brothers. Now the reality is that's the
5 impression we're trying to create in the marketplace,
6 that Aaron Brothers is offering an exclusive product
7 and it's a concept, not a piece of canvas.

8 The direct answer to your question, good,
9 bad or indifferent is that price is absolutely a
10 component of it but it's not opening price, it's not
11 exclusively the cheapest product that's available in
12 the market, and we defined it on a multitude number of
13 feature benefits if you will, price being one of
14 those.

15 COMMISSIONER ARANOFF: Okay, I appreciate
16 that answer. If there's anything that either side
17 wants to add in their post-hearing brief on this issue
18 of sort of price value and Tara's ability or any
19 domestic producer's ability to fit into that, it would
20 be helpful.

21 Let me ask a legal question that I just
22 can't resist. Mr. Gallas, in your brief you argue
23 that the Commission can't find that declines in sales
24 of the domestic stretched product are "totally the
25 result" of competition from subject imports.

1 That's not really the standard material
2 injury by reason of the subject imports, and I think
3 my understanding of the standard is significantly
4 lower than was totally the result.

5 Do you want to comment on whether or not we
6 can still find injury even if we find that the decline
7 in sales of the domestic stretch product had multiple
8 causes?

9 MR. GALLAS: That's a good question, but I
10 think the real point is, and I think you've heard from
11 all the witnesses, there are many factors at work and
12 I think this really, my statement probably went to
13 causation. I think you see that there were many other
14 circumstances at work here so that Tara's tabloids
15 oversimplification that everything stemmed from
16 Chinese imports, that isn't the true picture either.

17 I think you have to decide which of the two
18 views of the market based on that chart I showed you
19 earlier today is the correct one. I think the
20 portrayal of the market from this group is the much
21 more accurate portrayal which makes it that there just
22 is not enough of the causation factors here available
23 to show injury or threat of injury to this industry.

24 COMMISSIONER ARANOFF: Okay, I appreciate
25 that answer.

1 My time is up. Thank you, Mr. Chairman.

2 CHAIRMAN KOPLAN: Thank you, Commissioner.

3 I don't want to beat this to death but I've
4 got to come back to this 229 quota. I kind of want to
5 walk through it with you. I haven't done this yet but
6 I want to pick up on what my colleagues are doing.

7 First of all, I go back to your brief which
8 is filed on March 21st. On page 48 of your brief you
9 state, "Based on information provided by our importer
10 clients it is our understanding that the Chinese
11 government has allocated only 500,000 kilograms
12 annually towards artist canvas under the category 229
13 quota when there are many other products, two HTS
14 numbers for canvas out of 65 HTS numbers."

15 Now your footnote to that references the
16 Department of Commerce, ITA at the Department of
17 Commerce.

18 You say that given the fact that the prior
19 import levels before quota in 2005 were over five
20 million kilograms, the safeguard quotas pose a
21 dramatic reduction in canvas imports, and then you go
22 on with that argument.

23 Commissioner Hillman referred to this
24 Memorandum of Understanding between the governments of
25 the U.S. and China concerning trade in textiles and

1 apparel products, Annex 1. Annex 1, as she cited,
2 shows 33,162,019 kilograms under special purpose
3 fabric.

4 This, as I understand it from staff, this
5 document is a public document. It's not actually in
6 our record yet but it will be in our record very
7 shortly, like after the hearing. It's not formally in
8 our record at this moment but this is public.

9 There is nothing in this document though,
10 when I look at it cover to cover, nothing that makes
11 reference to this quota that you're referring to under
12 that cap. There's no reference to it.

13 The reference in your brief is information
14 from your importer clients. That doesn't get me
15 there.

16 This afternoon I've heard a figure of 700 to
17 740,000 instead of 500,000.

18 Unless I have documentation that covers this
19 since it's not in here, I can't get there in terms of
20 this special cap within the cap. Okay? So just a
21 statement that based on information from your importer
22 clients, that does not get me there.

23 So for my purposes, if you can document your
24 argument beyond what I've got so far, I would
25 appreciate that very much.

1 MR. GALLAS: We are seeking to get an
2 official document from the Chinese government that can
3 explain its allocation. So far there is --

4 CHAIRMAN KOPLAN: -- to such an allegation.

5 MR. GALLAS: I understand what you're
6 saying, but we have the anecdotal evidence of our
7 clients, and talking to the largest exporter, the
8 Microsoft of Chinese canvas --

9 CHAIRMAN KOPLAN: There's too much involved
10 here for me to base my --

11 MR. GALLAS: I understand.

12 CHAIRMAN KOPLAN: Let me just finish.

13 MR. GALLAS: Go ahead.

14 CHAIRMAN KOPLAN: To base where I'm coming
15 from on anecdotal evidence, okay? Because I'm looking
16 at a written agreement that's a public document soon
17 to be included in our own record. I can't get there
18 on anecdotal, okay?

19 MR. GALLAS: Okay.

20 MR. KANTER: Commissioner, the hard facts,
21 and I heard what you said and I'm sure we'll do that.

22 CHAIRMAN KOPLAN: I hope so.

23 MR. KANTER: As of Friday, this thing has
24 happened so fast that literally as of Friday we could
25 not get visas to release our goods to bring them into

1 the country. And as of Saturday we, Michaels and
2 Aaron Brothers, were literally making decisions how to
3 allocate between the two companies where the goods
4 needed to come. Then we went back to the resource and
5 literally tried to negotiate with them how they
6 allocate their quota.

7 But the hard facts, and obviously I
8 understand what you said in that document is not
9 there. The hard facts are we not able to get visas
10 for our goods because we're out of quota. Now how
11 that comes to be in the document you reference I don't
12 know, but we are not getting the goods that we need
13 and that's what we'll probably have to follow up on
14 obviously. But we're not getting them.

15 CHAIRMAN KOPLAN: I don't have them, and
16 since you all raised this in your brief I'm saying I
17 need something more tangible than anecdotal material.
18 Okay?

19 Thanks.

20 I've got one last question.

21 Mr. Klett or Mr. Gallas. You note in your
22 pre-hearing brief pages 19 to 22 that due to the
23 product mix of U.S. produced and imported artist
24 canvas competition from subject imports is limited.
25 However, record evidence indicates that U.S. producers

1 have experienced declining production in sales for
2 precisely those products that are imported in large
3 volumes from China, specifically pre-stretched canvas.

4 In my opinion, that demonstrates, at least
5 right now to me, an adverse volume impact of subject
6 imports.

7 For purposes of the post-hearing I'd like
8 you to go back to the record and respond to that using
9 the BPI information that's available to the both of
10 you and respond to where I am right now on that point.

11 MR. KLETT: We will do so.

12 CHAIRMAN KOPLAN: Thank you very much.

13 With that I will turn to Commissioner
14 Hillman.

15 COMMISSIONER HILLMAN: Thank you.

16 I don't want to keep staying on this textile
17 quota, but let me just by way of background, I will be
18 honest. When I first heard this argument about the
19 textile quota I didn't take it as seriously as I might
20 have because it was my understanding, again, these
21 quotas are expected to be a 15 percent uplift, et
22 cetera, et cetera, so that whatever else might happen
23 with the quota in terms of difficulties, it would not
24 result in a cut in anybody's level of imports. It
25 would only result in a limit on the level of the

1 increase in the imports, so that we were going to be
2 making our decisions in this case on this assumption
3 that whatever China had achieved in terms of its 2005
4 levels of imports, we could assume if the quotas were
5 done in the way that they've always been done since
6 the MFA existed that they would be coming in at a
7 level somewhere in the order of 15 percent above
8 current trade.

9 So I thought okay, I can make my decision in
10 light of that.

11 What you've said, however, about this
12 difference between the way the weights are being
13 calculated suggests to me that this is not the normal
14 way in which textile quotas have always, since
15 whenever, been applied.

16 So what would be helpful for me as you're
17 thinking about this is I would like to understand,
18 again, because our data in looking at it is in square
19 meter equivalents. The quota is calculated in
20 kilograms. There's normally the standard 13.6
21 conversion factor to go from kilograms to SMEs but
22 you're telling me that's not what's happening in this
23 case. So it's making it hard for me to understand as
24 a practical matter how the quota is going to affect
25 the total volume coming in. Calculated in either

1 kilograms or SMEs, it's not clear to me how to
2 translate what you've said about them weighing the
3 frame, which is again not a normal textile thing that
4 gets done, as part of the way in which they're
5 determining the usage of the quota. That's where I'm
6 struggling with this.

7 So if there is a way that you can help us
8 understand, again, I'm still not understanding why the
9 allocations are what they are, but you're going to get
10 me whatever you can get from the Chinese government.
11 Right now it's more trying to understand why it is
12 that we should assume that the quota is going to
13 result in this dramatic cut. I hear you saying it's a
14 large cut in the total volume of what can come in
15 under this quota. That is not normal in the textile
16 world. They're orderly growth agreements, they're not
17 cuts. So something different is going on. I'm
18 assuming that the something different is this issue of
19 weighing the frames.

20 So if there's anything further that you can
21 put on the record that would help us quantify the
22 degree of the cut that is coming as a result of them
23 including the weight of the wood, is how I'm hearing
24 it, and I want to make sure I get it right and that we
25 have from your perspective what you think is the total

1 volume of imports that would be permitted under the
2 229 quota in this category in the way that Customs or
3 the Chinese government or whoever is doing this
4 measuring and interpreting, is going to read this
5 agreement.

6 MR. STAPLETON: Commissioner Hillman, I
7 think it might be helpful to have internal
8 correspondence either from us or from Michaels
9 relating to the clearing of current shipments. It
10 would explain this really well. Because the supplier
11 applied for the visa and filled it out, let's just say
12 for the sake of argument they asked for 4,000
13 kilograms for a 40 foot container, and the weight of
14 that containers was 25,000 pounds or whatever the
15 equivalent is in kilos. When Customs got this, and
16 they're the ones that have to police the quota. When
17 they got this they said there's a disconnect here.
18 The weight of the container is this and the amount of
19 visa that has been secured is this and these don't
20 work.

21 If you guys can share that privately --

22 COMMISSIONER HILLMAN: And then what I need,
23 because again where I'm having trouble is translating
24 the kilograms and/or the square meter equivalents that
25 we have versus how much it weighs once you put it on

1 the frame. I don't know that we have that on the
2 record. So I don't have any way, even if I accept
3 your figure of 750,000 kilograms as the effective
4 limit, I can't then backtrack from that into how much
5 that results in comparison to our data. Maybe that's
6 not clear --

7 MR. STAPLETON: If you'll accept this, I
8 think that our supplier, Phoenix, could provide you
9 with a last year, 2005's worth of data, how much
10 kilograms of canvas was in that year that were
11 exported to the United States, and what the total
12 weight of that exportation was of the product. That
13 will tell you immediately what the --

14 COMMISSIONER HILLMAN: Again, where my
15 problem is is in theory, the way this is supposed to
16 work is you're supposed to take whatever that 2005
17 number is, add 15 percent to it, and that's what you
18 get in 2006. Yet what I'm hearing you tell me is
19 that's not what's happening.

20 MR. GALLAS: Phil Gallas.

21 I was involved with this current crisis.
22 I've had numerous discussions with CEDA and Customs
23 headquarters liaison with CEDA. I can provide you
24 correspondence, a confirmation of this problem with
25 Customs, apparently a misunderstanding between the

1 Chinese government and the U.S. as far as what is
2 counted towards the quota. Is it just the fabric
3 itself or is it the total finished article?

4 Apparently, and we have a copy of it, there's a 1989
5 directive from Customs headquarters that said you had
6 to count the whole finished article. The Chinese
7 government is saying that wasn't our understanding,
8 and yet the U.S. government, of course their policy is
9 to count the whole finished article.

10 So I think that is creating the crisis in
11 applying the quota which has created such a shortage.

12 COMMISSIONER HILLMAN: Whatever you can put
13 on the record. Again, what I'm looking for at some
14 level is your estimate of what this results in in
15 terms of total imported amount in 2006, how you
16 understand it under the way it's being interpreted and
17 whether there's anything that's being done in any way
18 to affect that interpretation that we should be aware
19 of. Because there is all these different ways of
20 measuring this and I just want to make sure I
21 understand what that means in terms of actual import
22 volume that would be expected in the absence of any
23 change in this 229 quota.

24 I understand you can't go into why the
25 Chinese government allocated it the way they allocated

1 it, but we'll leave that aside.

2 If I can then go more again to a legal
3 argument. As I sit here and think about these
4 arguments about the growth in the demand of the
5 market, that your ability to bring in the lower price
6 point Chinese product, to market it in a jazzier,
7 snazzier way, has grown the market. Let's just say I
8 accept that, and as a general matter our view is not
9 that the domestic injury can claim injury if they
10 didn't get more than X share or even didn't get any
11 share of a growing market. In other words if they
12 just held their own one could make an argument that
13 they're not injured by all of this other activity
14 going out there that they're not participating in.

15 My problem is when I look at the numbers,
16 their sales in the finished canvas in terms of volume
17 and dollars, et cetera, have gone down.

18 That's where I'm struggling with the --
19 Let's say I accept the argument that they didn't
20 participate in the new fangled part of the market, but
21 how do I read this data as saying that they didn't
22 still lose in their, if you will, traditional market
23 given that sales went down, sales volume went down,
24 production went down, all these things went down in
25 the finished canvas where the Chinese are

1 participating.

2 MR. KLETT: You're then assuming I think
3 that the focus of the inquiry is just the assembled
4 canvas and you leave completely aside the rest of the
5 industry that includes bulk canvas, includes digital
6 canvas, includes canvas panels, so on and so forth.

7 I think Mr. Thompson said that the fact that
8 there was this divergence between assembled canvas and
9 the other types of artist canvas basically made his
10 point because it indicated that it was in the
11 assembled canvas where things were going south and it
12 was in the other areas where things were going north.
13 I don't think that's how you look at it.

14 It's injury to the industry as a whole.
15 It's not injury to that part of the industry that
16 competes most directly with imports and give less
17 weight to that part of the industry that competes less
18 with imports.

19 I think the other point is that, and get
20 back to the Mexico situation. Clearly part of the
21 reason the assembled canvas is going south was the
22 shift to Mexico. So I think there was a question from
23 Commissioner Lane as to we said it's important to know
24 why that happened.

25 Obviously our story about why that happened

1 differs from Tara's.

2 But I think the main point is that you have
3 to look at the industry overall, not just to that part
4 of the industry that competes most directly with
5 imports.

6 MR. KANTER: Commissioner, could I just add
7 one thing?

8 In addition to what Dan said, if you look at
9 just the three of us and answer why their business has
10 declined, the eliminated him as a distributor, the
11 quality issues with John forced him to look at another
12 American manufacturer as well as India, and in our
13 case the manufacturing and production spec that we
14 have wasn't available through another American
15 resource at the volume level we were trying to do and
16 the other resource opportunity was China.

17 So in all three cases, I wouldn't say we
18 were forced to make decisions, we weren't, but leaving
19 them and going somewhere else regardless of who, it
20 could have been another American resource, was almost
21 a fait accomplis.

22 COMMISSIONER HILLMAN: Thank you very much.

23 CHAIRMAN KOPLAN: Thank you Commissioner.

24 Commissioner Lane?

25 COMMISSIONER LANE: I have no questions.

1 CHAIRMAN KOPLAN: Commissioner Pearson?

2 COMMISSIONER PEARSON: Thank you, Mr.

3 Chairman.

4 Following up on Commissioner Hillman's
5 question, as a legal matter Mr. Gallas, how should we
6 analyze the shift of a substantial portion of Tara's
7 production of finished canvas from the United States
8 to Mexico as we are trying to understand injury to the
9 U.S. industry? And if you don't want to go into it
10 all now, put it in the post-hearing. But my reading
11 of the record would suggest that there's pretty close
12 to a one-to-one shift of U.S. product, what had been
13 U.S. production to now non-subject imports, and I'm
14 guessing that's Tara product coming out of Mexico.

15 So it's not clear to me whether the injury
16 that might be suffered by the U.S. industry here would
17 be similar to what we see in many cases.

18 MR. GALLAS: I'd like to develop that
19 further using proprietary data in the post-hearing
20 brief.

21 COMMISSIONER PEARSON: Okay. Keep in mind
22 I'm not an attorney, so when I ask for a correct
23 understanding of the statute I do need that.

24 MR. GALLAS: Certainly.

25 COMMISSIONER PEARSON: The final point, Mr.

1 Chairman, my final point. I do, despite what it might
2 appear, I do actually work kind of hard at trying to
3 apply the law in a thoughtful and appropriate manner.
4 However setting that aside I'm actually very
5 interested in the outcomes of our decisions. What
6 happens in the marketplace when we decide as a
7 commission either to go affirmative or negative on a
8 dumping case?

9 In this one, this case seems to me to be
10 different than many. It looks to me as if because of
11 the textile quota issue that Respondents are in a
12 world of hurt regardless of what we do on this dumping
13 case. On the other hand, Petitioners at a minimum are
14 in a world of change regardless of what we do. I'm
15 just wondering, could you comment on that? Does it
16 make a lot of difference what we do in this case, in
17 this investigation?

18 MR. GALLAS: Of course your decision will
19 have a big impact on these folks. Not to mention as
20 Mr. Stapleton commented, from the time of the
21 preliminary determination by Commerce on November 7th,
22 they've had to post security with U.S. Customs based
23 on the preliminary margins found by Commerce. They've
24 now come to a final. If this were to proceed to a
25 dumping order every time they want to import the

1 goods, if they are able to get the supply from China,
2 they will have to post then cash deposits instead of a
3 bond, having the option of a bond. So it will become
4 also a cash flow consideration.

5 That will certainly enter into the way they
6 do business and they'll have to consider their
7 sourcing options. It has an inevitable effect.

8 I think what they were trying to communicate
9 today, and I understand we need to come up with more
10 evidence as far as allocation of quota and so forth,
11 but it's clear to me from hearing from my clients the
12 last few weeks who have been calling in crisis mode
13 that there is definitely something going on that has
14 limited their source of supply that is attributed to
15 the quota. To the point that they are all scrambling
16 to try to figure out what to do.

17 So we think the quota itself, in and of
18 itself is going to be a major impediment to their
19 being able to import this product in the future. On
20 top of that to have a dumping duty, it will certainly
21 have a double impact.

22 COMMISSIONER PEARSON: Adds insult to injury
23 from the standpoint of your clients.

24 MR. GALLAS: So to speak, yes.

25 COMMISSIONER PEARSON: I do understand.

1 There are still winners and losers based on our
2 decision. It just seemed to me a little less clearcut
3 than some cases we deal with where it's much more
4 transparent what might happen than it is here.

5 Mr. Klett, are you about to say something?

6 MR. KLETT: No, I was not.

7 COMMISSIONER PEARSON: Wise decision. I
8 think I'm going to stop too.

9 For Mr. Stapleton, you mentioned earlier
10 that you didn't even know we existed until you got
11 into this situation. I would just observe, I hope you
12 aren't in the position of concluding that you're
13 getting a lot more government than you have paid for.

14 (Laughter).

15 MR. STAPLETON: I would have to say I'm
16 impressed. I sat on a federal jury once and it was at
17 the time that the OJ Simpson thing was going on and
18 there was a lot of disrespect for the jurisprudence
19 system at that time. And I would have to say that I
20 feel the same way today as I did sitting on that jury.
21 I'm very proud of what I've seen.

22 COMMISSIONER PEARSON: Thank you for that
23 comment.

24 Mr. Chairman, let me end there. I have no
25 further questions.

1 CHAIRMAN KOPLAN: That's a good ending.
2 Commissioner Aranoff?

3 COMMISSIONER ARANOFF: Thank you, Mr.
4 Chairman. I have only one question, but alas, it's
5 sort of a long, meandering question so it may not be
6 as short as my colleagues are hoping.

7 I wanted to just one more time try to get my
8 arms around this idea of the shortage that you all see
9 happening or developing because of the quota
10 situation, and so I just want to make sure that a
11 couple of facts that I heard today are correct and
12 then ask my question.

13 What I heard from you was that Phoenix, who
14 seems to be the major supplier at least to the group
15 who is present here, has used up its quota and can't
16 send anything else to the United States in 2006 unless
17 something changes on this dispute with Customs. Is
18 that correct?

19 MR. STAPLETON: No. As far as I understand
20 it it's meted out on a quarterly basis. I think we're
21 actually going to have to get a letter from the
22 Chinese government, a letter from Phoenix, a letter
23 from you explaining the process in order for you guys
24 to put all this together. I'm sure we can in narrative
25 form explain it through all of that.

1 But as I understand it, there is a quarterly
2 amount that's doled out. We are at the end of the
3 first quarter and there's nothing left.

4 COMMISSIONER ARANOFF: So they've used up
5 the first quarter quota and it's the last week in
6 March, so that's not terrible.

7 MR. STAPLETON: Right. But it was used up
8 in basically about ten containers.

9 MR. GALLAS: Excuse me. I just want to ask
10 my clients, isn't this the time you begin your back to
11 school inventory ramp-up?

12 MR. KANTER: Phil, to your point, the
13 reality is our shipment right now will use up, we're
14 going to get 70 percent on the first shipment on the
15 first week of the second quarter, and that's it
16 because the quota's gone for the second quarter. So
17 out of 100 percent of our on-order, 70 percent is
18 available to us vis-a-vis the visa that is available
19 for the quota. And it's done. So now we don't get
20 good again until basically August.

21 COMMISSIONER ARANOFF: I was also under the
22 understanding, partially from what Petitioners said
23 this morning and partially from what I've been told by
24 our staff, that some part of the quota is either
25 reserved for bidding, it's not allocated out but you

1 can buy it on the open market and that even the stuff
2 that is allocated can be sold on a secondary market so
3 that the limit that you all are up against may not be
4 the real limit, depending on the cost of purchasing
5 additional quota. Is that true?

6 MR. GALLAS: It's a given from the time of
7 bilateral quotas that there's always been a secondary
8 market, but it's a seller's market and it's a limited
9 market. And people traditionally, zealously want to
10 use their own quota for production and if they don't
11 use it up traditionally -- pre-expiration of the MFA
12 as you know, they would take away the quota if they
13 didn't use their annual allocation. But there was
14 always the secondary market to be able to sell the
15 quota if you had some extra left over. But it's hard
16 to find. People don't advertise, on CraigsList I have
17 quota for sale. It's very hard to find and it's
18 expensive.

19 MR. MAREK: Commissioner?

20 COMMISSIONER ARANOFF: Yes.

21 MR. MAREK: Our China resource has spent the
22 last couple of weeks searching high and low under
23 every rock, going to people that had quota within the
24 229 bucket and has come up with nothing. The reason
25 is, as Phil pointed out, reluctance to sell might be

1 one reason. Another might be because it's early in
2 the year. They don't want to lose forward. This is
3 brand new so they don't know what to expect. But the
4 bottom line is the net result of all our efforts to
5 date has been zero.

6 COMMISSIONER ARANOFF: I appreciate those
7 answers, and those were really only the lead-up to my
8 question which was if you can't get as much as you
9 need from your Chinese sources and the testimony that
10 I thought I heard was that most of you are not in a
11 position to develop an alternate non-subject source
12 that's acceptable in say less than a year, maybe
13 longer, and you brought in a bunch of inventory in
14 advance of the dumping duties and the quotas, but I
15 don't know how long that's going to last you, maybe
16 some of you can tell me that.

17 At some point in 2006 you get to a place
18 where you can't get any more Chinese, you've run out
19 of inventory there's no non-subject source. Am I
20 going to go into your store either now or in six
21 months and see manu fewer shelves devoted to artist's
22 canvas because you're just going to sell less? What
23 am I going to see? Are you going to find a domestic
24 source? You've sort of said there aren't any more.
25 What's going to happen?

1 MR. MAREK: Commissioner, Alan Marek.

2 First of all, if we don't get any relief, if
3 there is no relief on the China side for delivery of
4 that product, there is going to be a huge void in the
5 supply chain to fulfill our marketing plans, as we
6 explained them to you, and the success of those and
7 the customers we've satisfied over the last couple of
8 years.

9 What are we going to do? At this point,
10 we're using all of our resources, aside from the time
11 we're here now, to try to find a way. Our China
12 factory is approaching the China government in
13 Beijing. He is a very small factory relative to
14 others in Category 229. He is a very small piece of
15 that 229 bucket. His concern is he is going to have a
16 difficult time in convincing the Communist Chinese
17 government to listen to him in terms of the weight
18 issue and how that's relegated. He has no idea how
19 long that's going to take, but because this has
20 happened so quickly, and because we wanted to appear
21 here today, we really haven't sat down as a company
22 and decided what steps are we going to take next.
23 Right now, we're frantically scurrying around, trying
24 to find answers to those questions.

25 COMMISSIONER ARANOFF: Okay. I appreciate

1 those answers, and if there is anything else that any
2 of you wants to add -- also, you had mentioned a
3 company that's not represented here today that's
4 pursuing a supplier in India in a shorter period of
5 time. If you could provide in confidence that
6 information for us, that would be helpful.

7 I understand that things are in flux for
8 you, and I'm just trying to sort out, assuming that
9 everything goes badly for you, you don't fix your
10 quota problem, you don't find another supplier this
11 year, I'm trying to figure out what the market will
12 look like, so I would appreciate anything you can add
13 on that. In fact, I would also invite the domestic
14 industry to respond to that question as well.

15 Thank you, Mr. Chairman. I don't have any
16 further questions.

17 MR. MAREK: Commissioner, may I just add one
18 other thing? Alan Marek.

19 COMMISSIONER ARANOFF: Sure.

20 MR. MAREK: I thought I heard you say, and
21 maybe I misunderstood you, that we were building up
22 our inventories or whatever before the quotas came
23 into play, et cetera. To my knowledge, and, again,
24 I'm not the buyer, and I'm not in inventory
25 management, but to my knowledge, that certainly didn't

1 occur at Michaels or Aaron Brothers, as Harvey just
2 said.

3 MR. STAPLETON: That didn't happen at
4 MacPhersons either.

5 MR. MAREK: And the reason is because, first
6 of all, a lot of this took us by surprise, number one,
7 and, number two, we don't have any, at least, again,
8 at Michaels, we don't have any reason to build up
9 inventories. We order as we need it. We plan things
10 out. It takes a longer time.

11 Harvey pointed out earlier that the order
12 and receipt process for a Far East buy is
13 significantly longer than it is in the U.S. We have
14 safety stock. We order additional inventory to cover
15 that, but it's all done in advance of when we need it.
16 So when you look at the scheme of things, we may have
17 had product for the last couple of months while this
18 has just first hit us -- right? -- but that's quickly
19 running out, and when we do, in fact, get release of
20 goods overseas, or when we can even get an order
21 processed and built, then the time between that
22 happening and it arriving to port here and then
23 getting into our warehouses for distribution is going
24 to extend the receipt in the stores.

25 COMMISSIONER ARANOFF: I understand. It may

1 have been that I heard from Petitioners this morning.

2 MR. GALLAS: I was just going to say -- Phil
3 Gallas -- that that was purely speculative by
4 Petitioners. They never made any allegations of
5 critical circumstances at Commerce, so there is no
6 evidence on the record before the Commerce Department
7 of any surge created as the result of the filing of a
8 dumping petition.

9 COMMISSIONER ARANOFF: Okay. I'll ask all
10 of your or, alternately, our staff if we can get on
11 the record statistics that would cover the months
12 leading up to monthly data that leads up to the
13 imposition of the duties and the beginning of the
14 quota so we can just take a look at that issue.
15 Thanks very much.

16 CHAIRMAN KOPLAN: Thank you, Commissioner.
17 I don't have any questions, just an
18 observation. When the gentlemen were talking about
19 being shut down until August and not having any source
20 of supply, I noticed, I think, that Mr. Straquadine's
21 hand was up. It's up again. So there might be a
22 source right here in this room for you.

23 MR. STAPLETON: Commissioner, not for us.
24 They fired us.

25 CHAIRMAN KOPLAN: He's got his hand up

1 again. I'm not going to get involved in the
2 negotiation. I'm just mentioning what I'm observing
3 in the room.

4 Let me see if there are any other questions
5 from the dais. Commissioner Hillman?

6 COMMISSIONER HILLMAN: Just one quick one, I
7 think, for post-hearing. You claimed originally that
8 Tara's financial reporting to the Commission was
9 inaccurate, and in between then obviously there has
10 been a verification of the Tara data. I'm just
11 wanting to make sure I understand whether you still
12 believe, in light of the revised verified data, these
13 discrepancies exist -- again, I'm going specifically
14 to the issue of the allocation between the Mexican
15 production versus the way Tara allocated its expenses,
16 U.S. versus Mexico, and if so, if you could lay that
17 out in light of the verification of the data in your
18 post-hearing brief.

19 MR. KLETT: I would be happy to. I haven't
20 seen the verification report, so as long as that's in
21 the Thursday APO release, I would be able to comment
22 on that.

23 COMMISSIONER HILLMAN: I understand. It's
24 all APO, and it's in the verification report, but I'm
25 just wanting on the record for you to comment in your

1 post-hearing brief on whether you still think there
2 are issues that need to be looked at on the expense
3 allocation.

4 MR. KLETT: I will do so.

5 COMMISSIONER HILLMAN: Thank you very much.
6 And with that, I have no further questions, but thank
7 you all very much for your answers.

8 CHAIRMAN KOPLAN: Thank you.

9 Ms. Mazur, does staff have questions of this
10 panel before I release them?

11 MS. MAZUR: Mr. Chairman, the staff has no
12 questions.

13 CHAIRMAN KOPLAN: Thank you.

14 Let me give you the time remaining.
15 Petitioners have nine minutes remaining from their
16 direct presentation. Respondents have 11. So that
17 can be used for rebuttal, and then, of course, you
18 both have five minutes for closing on top of that. My
19 understanding from the secretary is that, Mr.
20 Thompson, you don't have any questions of this panel
21 before I release them because you want to save all of
22 your nine minutes for rebuttal.

23 MR. THOMPSON: That's the case.

24 CHAIRMAN KOPLAN: That's correct? Well,
25 then with that, I will release the panel, and we will

1 start with Petitioners' rebuttal and then go to
2 Respondents' rebuttal.

3 (Pause.)

4 CHAIRMAN KOPLAN: You're asking for one
5 minute, Mr. Thompson?

6 MR. THOMPSON: Yes, Mr. Chairman. We're
7 just deciding on who is going to do the rebuttal
8 presentation.

9 CHAIRMAN KOPLAN: One minute.

10 (Pause.)

11 (Discussion held off the record.)

12 CHAIRMAN KOPLAN: Are you ready to proceed?

13 MR. THOMPSON: Yes, Mr. Chairman.

14 CHAIRMAN KOPLAN: Okay. You've got nine
15 minutes; not that you have to use it all, but you've
16 got nine minutes.

17 MR. STRAQUADINE: Good afternoon. Paul
18 Straquadine. I, too, appreciate everyone's time. I
19 know it's been a very long, arduous day, and I
20 appreciate your attention and your time in this
21 matter. I do apologize that much of what's been
22 discussed today sounds almost like a divorce court
23 proceeding, and it certainly wasn't our intention to
24 bring our dirty laundry in front of you.

25 I do believe, though, that the Respondents

1 made several statements that are very indicative of
2 this petition and very indicative of the artists'
3 canvas market. I believe that Mr. Stapleton referred
4 to the partnering that was addressed with Tara
5 Materials, the partnering to take the book shelf-style
6 merchandizing into the front-faced merchandizing, and
7 partnering, I will submit, is a very nice marketing
8 word for price. Partnering is an allocation or a
9 merchandizing allowance or something that means Tara
10 reduced their price.

11 We are not retailers. We have never been
12 retailers. Tara is a manufacturer. We make product.
13 We would certainly never choose a merchandizing scheme
14 that says, stack our product in the back of the store,
15 book shelf style, where no one sees our beautiful
16 labels and our lovely, white canvas. But we do
17 understand that it does help sell canvas.

18 I worked with the West Coast retailer who
19 did the front-facing concept, and I saw the success of
20 it when I was there. So it's not that we are in
21 opposition to that merchandizing dream. What we are
22 in opposition of is being able to reduce prices to
23 Chinese levels in order to fund that marketing for a
24 large distributor or for a large retailer.

25 I believe that the other term that Mr.

1 Stapleton used was he was speaking to the soccer moms
2 and saying that you need something to hook you and
3 bring you in, and that would be price. That 40
4 percent off sale; I know he used the term "inflated
5 retails," and I think that's indicative of a kind of
6 bait-and-switch philosophy that is basically overused
7 in merchandizing and marketing today where people want
8 to mislead a consumer that the value is greater and
9 that their discount is more attractive. So I would
10 say that that is still all indications leading toward
11 price.

12 In the situation of Aaron Brothers, in terms
13 of specifications of product and working with
14 manufacturers who could hit the three points that were
15 necessary, I believe price was a part of all three of
16 those. Price was involved with quality, price was
17 involved with the specification process, and price was
18 involved with price.

19 I would also submit that Mr. Marek made
20 reference to Michaels' purchases of private labels
21 from China not growing the market. From our sources
22 at Michaels, our buyers and merchandisers there, we
23 have been told on several occasions that the China-
24 sourced product has been promoted and priced
25 substantially lower than the previous product made by

1 Tara, and thus the sales were increased as a result of
2 that.

3 MR. TWITE: Good afternoon. My name is
4 David Twite. I'll go quickly on this.

5 There was a point made this morning. The
6 Commission raised some questions about the distinction
7 Tara makes in our inclusion in domestic production the
8 conversion of bulk canvas and assembled stretched
9 canvas and our exclusion of the process of adding an
10 ink jet-receptive top coat. The distinction lies in
11 the nature of the resulting products and the percent
12 impact the conversion has on finished value.

13 Specifically, the stretching operation substantially
14 transforms the product and results in a multitude of
15 products that can be sold interchangeably with
16 competitive product in the art materials market.

17 The salient point here is that they become
18 different products but still in the art materials
19 product category. In addition, the value add of
20 assembling and stretching canvas represents over 50
21 percent of the cost of goods. Alternatively, the top-
22 coating process adds a much smaller percentage cost of
23 goods, and the resultant product is primarily altered
24 to be a calibrated consumable for use with specific
25 manufacturers' printer inks.

1 In this sense, the top coating is really the
2 first step in the transformation of the product into
3 finished art reproductions or wall decor items, which
4 is a very different product category. An appropriate
5 analogy would be the transformation of wood into
6 various sizes of dimensional lumber versus the
7 application of paint primer to make it more paintable.

8 I did want to comment on another thing I
9 heard. Mr. Kanter from Aaron Brothers commented on
10 the circumstances surrounding their decision to stop
11 purchasing from Tara. While I cannot comment on the
12 factors they ultimately based their decisions on, I
13 was present at all of the meetings and correspondence
14 they had with Tara concerning this decision and,
15 therefore, can confidently attest to the topics
16 discussed at these meetings.

17 There were two. Was the Chinese product
18 comparable in quality? They wanted to confirm the
19 weight of the fabric, the number of coats of jesso.
20 They even asked us to test the product with regard to
21 certain performance characteristics. In short, they
22 wanted to know if they were comparing like product.

23 Two: Could Tara meet or come close to the
24 prices offered by the Chinese competition? In the
25 first face-to-face meeting we had when the topic was

1 broached, we were told that we would have to become
2 very aggressive with the pricing, but they wanted to
3 stay with Tara because of the confidence they had in
4 our historical relationship.

5 At the second meeting, our price-rollback
6 offer of approximately 20 percent was dismissed
7 immediately as inadequate. Catherine Henkins, who is
8 responsible for this product category, indicated that
9 we would need to have a price reduction of 45 to 50
10 percent for it to be attractive enough for them to
11 stay with us.

12 At no point was quality deficiency on the
13 part of Tara product a topic or a reason given for
14 Aaron Brothers' interest in changing vendors. To
15 paraphrase Catherine's words, the margin implications
16 are just too completing, referring to the Chinese
17 canvas.

18 At no point was size selection raised as a
19 criticism against Tara nor desire on the part of Aaron
20 Brothers. They didn't come to us looking for a
21 greater assortment.

22 Now, I want to make one final comment. This
23 is really a hugely unfortunate place for us all to end
24 up. Every member of the industry that is present here
25 today would rather be doing something else. Tara

1 initiated this petition because we believe that we
2 having disadvantaged in the marketplace in an unfair
3 and illegal way. We do not have access to all of the
4 competitive data that would determine exactly to what
5 extent this is occurring.

6 We hope for a positive outcome. We
7 appreciate the Commission's efforts in determining the
8 truth, and we look forward to getting back to
9 business. Thank you.

10 MR. I. BENATOR: Michael Benator. I wanted
11 to point out that Mr, Klett's diagram, his Exhibit 1,
12 shows the greatest growth in Mexican production was
13 from 1999 to 2002 before China came into the market
14 and saying that Tara is switching production to Mexico
15 even before China. All of that growth we can document
16 and support that related to the splined canvas that is
17 specially produced where it is stretched on the back
18 with a vinyl spline, all of that production has always
19 been made in Mexico and has never replaced any U.S.
20 production.

21 Regarding the Respondents' comments as far
22 as if the quotas limit them from replacing the Chinese
23 with other product, I firmly concur that the U.S.
24 manufacturers could respond. The only difference is
25 we can't respond at the same price. There are also

1 other countries that have plenty of capacity, and the
2 only real issue is the China price.

3 I think we're out of time.

4 As far as MacPhersons, the issue that we
5 can't price our prime contract for the distributor to
6 sell to the retailers and below Tara's net price so he
7 can maintain a favorable margin, the real issue is the
8 price, the price that we sell it to him for that he
9 then has to sell it to the retailer for. By getting a
10 Chinese product, he was able to buy it at a low price,
11 then be able to mark it up and sell it so the retailer
12 could sell it below Tara's price, and he could still
13 make a favorable gross profit margin.

14 The issue as far as why we can't price
15 Michaels' private label, Aarond Brothers' private
16 label, and Utrecht private label products at the
17 aggressively advertised sales prices with a better
18 margin is because our margins and our prices are
19 already as tight as they can be, and the only way for
20 these big box retailers to switch to another private
21 label brand and improve their margins again is price.

22 CHAIRMAN KOPLAN: Thank you.

23 MR. I. BENATOR: Thank you very much.

24 CHAIRMAN KOPLAN: Mr. Gallas? You've got 11
25 minutes. Could you repeat that with the microphone

1 on? I was enjoying it.

2 MR. GALLAS: Mercifully, I'm not going to
3 use all of that time. You have all been incredibly
4 patient. You've listened to a very interesting day of
5 testimony. I'm really struck by how apt the chart I
6 showed you this morning is. It shows the stark
7 contrast of two diverse views of the four Ps and the
8 market as viewed by my clients and as viewed by Tara.

9 Innovating merchandizing and marketing of
10 canvas started in the mid-nineties, and it sparked the
11 changes in the industry which we're seeing today.
12 Those innovations were by my clients, the importers
13 and retailers, who quickly sensed these changes and
14 tapped into the growing market opportunities. They
15 were the ones who offered and marketed the new
16 products and catered to a new breed of consumers.
17 They created the demand that you've seen through all
18 of your data. You see that the demand is growing.

19 A lot of you have seen all of these positive
20 trends that show that there is more than enough demand
21 to satisfy not just the domestic industry but also the
22 Chinese product. There is an enormous demand that's
23 been generated by this new breed of consumer and by
24 the marketing efforts of my clients.

25 Tara, on the other hand, has made a

1 financial decision to move its canvas production to
2 Mexico to capitalize on the lower labor there. This
3 decision compounded its current predicament because
4 the way they handled things, they specifically failed
5 to address quality problems, as you've heard
6 repeatedly, and nurture clients which resulted from
7 this move. They fired key customers. They alienated
8 key customers. These problems predated imports, and
9 that will be developed further in our post-hearing
10 brief.

11 These problems increased largely due to
12 Tara's failure to recognize the potential of its
13 market and its customers. Tara continues its
14 disingenuous stonewalling regarding the digital-print
15 canvas. Mr. Twite's points were totally irrelevant to
16 the Commission's criteria for deciding whether a
17 converter is part of the U.S. industry. Clearly,
18 these producers are part of the U.S. industry when you
19 look at the producers' questionnaires before you, and
20 we will talk about the value added and the like in our
21 post-hearing brief.

22 Even though Tara has included digital-print
23 canvas in the case, they have been less than
24 forthcoming in allowing the Commission, in identifying
25 the universe of these digital print producers and

1 allowing the Commission to ascertain the data to know
2 whether or not they have adequate coverage to make
3 this decision on the industry as a whole. In fact,
4 your recent opinion in the preliminary on lined paper
5 contained a footnote chastizing the petitioner in that
6 case for impeding the Commission's investigation by
7 changing the scope and not having data collected in
8 their questionnaires consistent with the scope.

9 I realize that scope is something a little
10 different, but I think the same general point applies
11 here, that Petitioner is the one responsible for the
12 Commission not having the data sent out to the
13 industry that you would have normally done. I think
14 it's even more egregious since this has happened at
15 the final phase of your investigation.

16 You've heard the anecdotal evidence. We
17 will try to get you more documentation. Something is
18 seriously going on with the textile quota that is
19 impeding my client's abilities to be able to source
20 their goods from China. This is something real and
21 concrete. I understand the Commission's need for
22 concrete evidence, and to the extent that we can get
23 the Chinese government to be more forthcoming in their
24 allocation of the quota, we shall provide it, and we
25 certainly can provide you our correspondence with

1 Customs headquarters and their directive and and so
2 forth on this recent issue.

3 I think the positive trends that
4 Commissioner Hillman, Commissioner Pearson, and others
5 identified, and Chairman Koplman -- there are many
6 different indicia here that you have before you that
7 show very positive trends, that the prices are
8 increasing, and that demand is going up and apparent
9 consumption, et cetera, et cetera. All of those
10 positive trends you mentioned show a healthy industry.
11 It doesn't show your typical case where you really
12 have an unhealthy industry that would show truly
13 material injury or threat of injury.

14 Here, you have a healthy industry, and you
15 have to remember, Tara is not the whole industry.
16 Granted, they are the petitioner here, but you don't
17 have the whole industry. There is more than them.
18 You have to consider the injury to the industry as a
19 whole, and I think that when you obtain the
20 information from the digital print producers, you will
21 have that information to show, and it will change the
22 overall picture of the health of this industry.

23 I would like to thank you all for your
24 patience. I would like to thank you for allowing us
25 to come before you today, and I'll reserve my further

1 comments for our post-hearing brief. Thank you.

2 CHAIRMAN KOPLAN: Thank you. We will now go
3 to closing remarks.

4 MR. GALLAS: I have nothing further.

5 CHAIRMAN KOPLAN: Okay. So you're not going
6 to use your five minutes for closing.

7 MR. GALLAS: No, I will not.

8 MR. THOMPSON: I would be happy to buy them
9 from him.

10 CHAIRMAN KOPLAN: To do what, to buy them?

11 MR. THOMPSON: To buy them from him.

12 Thank you again, Mr. Chairman. Just a
13 couple of points, sort of a theme without a pudding,
14 if you will, or a pudding without a theme on my
15 points, but there are a number of issues that I would
16 like to address that were raised in the testimony by
17 both sides today.

18 First, Tara discussed the price effects of
19 the imports, and then we heard Respondents come in and
20 talk about the importance of price points. Now, to
21 me, that's a euphemism, price point being let's get
22 it as cheaply as possible and use that as a lever to
23 either force Tara's prices down, which has occurred,
24 or use it as a reason to buy from parties other than
25 Tara, namely, the Chinese suppliers.

1 Now, Respondents made the point that there
2 has been an expansion in demand because of the "lower
3 price points." Now, that just may be, but here is the
4 problem. When U.S. companies buy from China, they
5 don't just buy the section of the supplies that they
6 need that is limited to consumers that would not
7 otherwise purchase artists' canvas. No, they buy the
8 entire range from China. So if there is a percentage,
9 which the Respondents have not been able to define, of
10 parties that would never buy artists' canvas at U.S.
11 prices, that's one point, but, in fact, they are
12 buying their entire range from China, including the
13 products that Tara previously sold and that were being
14 sold in the U.S. market.

15 So we might have some price effect on that
16 expands demand, which, as I said, has never been
17 defined, but most of what is coming from China is
18 replacing product that was already being sold in the
19 United States market, and Michaels Stores is a case in
20 point. We heard Michaels discuss before how its sales
21 of Tara's Fredrix canvas have increased over the past
22 few years. That's true, but it's incomplete.

23 Michaels sent its private label purchases to
24 a Chinese supplier back in 2003. I've seen the
25 numbers during the hearing. If you add up all of

1 Tara's sales to Michaels, starting from 2003 to the
2 present, they have actually declined. Fredrix may be
3 up, but the private label is down even more than that
4 increase.

5 So we have Michaels as a case in point where
6 an entire product selection, the private label, was
7 replaced by Chinese canvas, and the reason for that
8 was that China provided a lower price than the United
9 States.

10 Now, further on Michaels, let me note
11 Michaels' impact on Tara's decision to expand its
12 production in Mexico. The Respondents have made the
13 point that Tara couldn't have moved to Mexico because
14 of Chinese competition because they moved their
15 production there before the imports really grew in a
16 big way. Well, the problem was, and this is why Tara
17 moved when it did, Michaels had announced that it was
18 moving its private label sourcing from Tara to China
19 back in 2003. At that point, the imports hadn't
20 started. Michaels had announced that it would be
21 importing in the future.

22 So Tara, faced with the realization that one
23 of its biggest customers was now moving to Chinese
24 product on the basis of price, sought to do what it
25 could to lower its overall costs and do what it could

1 to meet the price points that the Respondents had
2 referred to today in anticipation of that loss of
3 business, and, sure enough, the imports followed.

4 Another point, just to leave you with this:
5 Tara does produce print canvas itself. There was a
6 misstatement by Respondents' economist. Tara is a
7 producer. Thank you.

8 CHAIRMAN KOPLAN: Thank you. Thank you to
9 all of those who participated in today's hearing. I
10 also want to thank the staff for its assistance to us
11 in this investigation.

12 Post-hearing briefs, statements responsive
13 to questions and requests of the Commission, and
14 corrections to the transcript must be filed by April
15 4, 2006. Closing of the record and final release of
16 data to parties by April 19, 2006, and final comments
17 are due April 21, 2006. With that, this hearing is
18 adjourned.

19 (Whereupon, at 5:43 p.m., the hearing in the
20 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Artists' Canvas from China
INVESTIGATION NO.: 731-TA-1091 (Final)
HEARING DATE: March 28, 2006
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: March 28, 2006

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
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).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter