

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
UNCOVERED INNERSPRING UNITS) Investigation Nos.:
FROM CHINA, SOUTH AFRICA,) 731-TA-1140-1142
AND VIETNAM) (Preliminary)

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Tuesday
January 22, 2008

Room 101
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced pursuant to Notice, at 9:33 a.m., before the Commissioners of the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, presiding.

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On behalf of the International Trade Commission:

Staff:

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APPEARANCES: (Cont'd)

In Support of the Imposition of
Antidumping Duties:
On behalf of Leggett & Platt, Inc.:

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Leggett & Platt, Inc.
LEIGH SALYER, Group Vice President, Demand
Management, Bedding Group, Leggett & Platt, Inc.
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On behalf of Hickory Springs Manufacturing Co.:

Of Counsel:

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In Opposition to the Imposition of
Antidumping Duties:

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Group Co., Ltd.; Hostwell Development Co., Ltd.; Foshan
Jingxin Steel Wire & Spring Co., Ltd.; Wuxi Xihuisheng
Trading Co., Ltd.; Nanjing Taihi Furniture Co., Ltd.;
Nanjing Jinbang Qilin Mattress Co., Ltd.; Jiangsu
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In Opposition to the Imposition of
Antidumping Duties
(continued):

On behalf of Ad Hoc Innersprings Importers Coalition:

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ROBERT W. ENOCH, Direction, China Logistic Partner
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BRIAN J. PIPER, President, Pacific Spring
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KERRY TRAMEL, President, Lady Americana
MARTIN WOLFSON, President, Texas Pocket Springs

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JEFFREY GRIMSON, Esquire
Troutman Sanders, LLP
Washington, D.C.

On behalf of Mattress Makers, Inc., Tacoma, Washington:

RAY BURGESS, President, Mattress Makers, Inc.

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P R O C E E D I N G S

(9:33 a.m.)

1
2
3 MR. CARPENTER: Good morning and welcome to the
4 United States International Trade Commission's conference
5 in connection with the preliminary phase of Antidumping
6 Investigation Nos. 731-TA-1140-1142 concerning imports of
7 uncovered innerspring units from China, South Africa, and
8 Vietnam.

9 My name is Robert Carpenter. I am the
10 Commission's director of investigations, and I will
11 preside at this conference. Among those present from the
12 Commission staff are, on my right: Jim McClure, the
13 investigator; and on my left, Kelly Clark, the economist;
14 David Boyland, the auditor; and Queena Fan, the industry
15 analyst.

16 I understand the parties are aware of the time
17 allocations. I would remind speakers not to refer in
18 your remarks to business proprietary information and to
19 speak directly into the microphones. We also ask that
20 you state your name and affiliation for the record before
21 beginning your presentation.

22 Are there any questions? If not, welcome, Mr.
23 Corr. Please proceed with your opening statement.

24 MR. CORR: Good morning. My name is Chris Corr of
25 the law firm of White & Case, and I am joined by my

1 colleague, Yohai Baisburd. We represent Leggett & Platt,
2 which filed the petition on behalf of the U.S. mattress
3 innerspring industry. Our panel today consists of the
4 president of Leggett's Bedding Group, as well as the
5 special counsel and representatives from Hickory, all of
6 whom you will hear from shortly.

7 As we all know, about four years ago, the
8 Commission reached a negative determination in a Section
9 421 investigation of the effects of Chinese innerspring
10 imports -- based on the factual record at that time.
11 While the domestic producers in that proceeding warned of
12 the threat of increasing imports, the Chinese exporters
13 assured the Commission that exports from China would
14 remain "tiny" and "negligible," had very limited
15 capacity, and posed no threat.

16 Well, here we are, four years later, and the
17 record, unquestionably, has changed significantly. Two
18 of the four domestic producers who gave testimony to the
19 Commission -- Atlas and Saval -- are out of business due
20 to increasing imports. Leggett has shuttered three
21 plants and recently announced closure of three more
22 service centers and may face further imminent closures.
23 Hickory will speak about its own position shortly.

24 Despite Respondent's assurances in the 421
25 proceeding, import levels, both absolute and relative,

1 have increased significantly, even using official customs
2 statistics. These increases are seen in all subject
3 imports, including South Africa and Vietnam, as well as
4 China. You will hear later that we believe the official
5 statistics materially understate import volumes due to
6 entry misclassification of subject imports in other HTS
7 headings, such as 7320. It is critical that the
8 Commission ensure it gets good coverage of U.S. importers
9 and that importers provide data for all of their imports,
10 regardless of how they classified them. The record will
11 show that these import increases had harmful effects on
12 price and on the domestic industry.

13 Price effects can be seen in massive, consistent
14 underselling by subject imports in this price-sensitive,
15 commodity industry, and consequent price depression, lost
16 sales, and lost revenue. The data also will show
17 significant price suppression, as Leggett cannot pass
18 through higher input prices due to imports that often are
19 priced lower than the Petitioner's production costs.

20 Harmful effects on the domestic industry are
21 manifold and directly correlate with rising imports.
22 These include significant declines in Petitioner's (1)
23 capacity, (2) production, (3) market share, (4) volume
24 and value of U.S. shipments, (5) average unit selling
25 values, (6) employment, (7) wages, (8) operating income

1 and operating margins -- all of which are significantly
2 lower than in 2004 and continue to trend downward.

3 Other changes since the 421 proceeding that are
4 relevant to a material injury or threat determination are
5 that: (1) China's capacity has increased dramatically,
6 (2) subject imports are penetrating the entire U.S.
7 market, and 3) the domestic industry is especially
8 vulnerable in anticipation of a drop in demand due to the
9 problems in the housing market.

10 Two things have not changed from the 421
11 proceeding, however: One, there is substantial
12 substitutability between imports and domestic like
13 products; and, two, import underselling remains
14 significant.

15 Now, there will, no doubt, be much discussion of
16 the nuances of the conditions of competition and the fact
17 that the domestic industry continues to generate a
18 profit, although less so. But we must not lose sight of
19 the legal standard for this preliminary phase of the
20 proceeding, which boils down to a single question:
21 whether there is a "reasonable indication" that the U.S.
22 mattress innerspring industry suffered, or is threatened
23 by, material injury due to low-priced, subject imports,
24 and when we're talking about material injury, we mean
25 only anything that is greater than immaterial or

1 inconsequential.

2 The clear answer to that simple question is yes.
3 All of the downward trends that I have just mentioned,
4 and that will be explored by this panel and in
5 confidential briefs, leave room for no other conclusion.
6 This case, respectfully, must move to a final phase.
7 Thank you.

8 MR. CARPENTER: Thank you, Mr. Corr.

9 Ms. Mendoza?

10 MS. MENDOZA: Good morning, Mr. Carpenter and
11 Members of the Commission staff. My name is Julie
12 Mendoza, and we represent the Ad Hoc Coalition of
13 Innerspring Importers, most of whom also happen to
14 produce mattresses.

15 Let me begin by explaining that imports came into
16 this market in early 2004 because there were very few
17 options available in this market, other than Leggett &
18 Platt. Most of Leggett & Platt's competitors had been
19 acquired by Leggett & Platt prior to 1994. Then, in
20 2006, Leggett acquired and shut down Atlas Springs.

21 Imports became an alternative. Most U.S. mattress
22 manufacturers continue to buy from other domestic
23 producers, including Leggett & Platt. In fact, most buy
24 more than 50 percent of what they consume from domestic
25 producers.

1 Keep in mind today that there are large segments
2 of the innerspring market that experience no competition
3 from imports. Leggett has a number of patented,
4 proprietary designs with which imports cannot compete
5 legally.

6 Then there is a whole segment of the market
7 constituted by Serta, Simmons, and Sealy, who are about
8 60 percent of the market, according to our estimations
9 and also Leggett & Platt's, and they don't import at all.

10 Let me address head on that it may be that profits
11 have declined from their excess of 20 percent in 2003 in
12 the original investigation. Is it realistic to expect
13 that these extraordinary profit levels are going to be
14 sustained year after year?

15 If you look at the rest of Leggett & Platt's
16 divisions, you'll see that none of them have that kind of
17 level of profits.

18 A falloff from these extraordinary profit levels
19 doesn't constitute material injury, and I know exactly
20 how the Commission defines it. In fact, Leggett & Platt
21 and the industry are very healthy and very strong, and
22 the conditions of competition are not nuanced.
23 Expansions, acquisitions, and having departments that are
24 dedicated to managed demand are very expensive. It has
25 been very expensive for Leggett & Platt to accomplish

1 that.

2 But these costs are also a testament to their
3 successful business strategy: Acquire your competitors,
4 move toward vertical and horizontal integration in the
5 production of all bedding complains, and then be the go-
6 to producer that everyone has to purchase from, and then
7 leverage and leverage that power, and that's what you're
8 going to hear this morning from our witnesses: how
9 Leggett & Platt has very effectively leveraged that power
10 to make themselves be very healthy and very competitive.

11 One final comment: Imports were already declining
12 in 2007, particularly late 2007. The combined effects of
13 rising raw material prices in China and a sagging dollar
14 were already eroding the competitiveness of imports.
15 Thank you very much.

16 MR. CARPENTER: Thank you, Ms. Mendoza.

17 Will the domestic parties please come forward at
18 this time?

19 (Pause.)

20 MR. CARPENTER: Please begin, if you're ready.

21 MR. BAISBURD: Thank you, Mr. Carpenter. Good
22 morning, Mr. Carpenter and Members of the Commission
23 staff. My name is Yohai Baisburd, and I am with the law
24 firm of White & Case. I am joined here today, on my
25 right, by Perry Davis, the president of Leggett's Bedding

1 Group, which includes Leggett's innerspring operations,
2 and, on my left, by my colleague, Chris Corr and Lee
3 Sawyer, who is the group vice president for demand
4 management of the Bedding Group; and Wendy Watson, an
5 associate special counsel with Leggett & Platt.

6 You will also be hearing this morning from Hickory
7 Springs, the second-largest U.S. innerspring manufacturer
8 for the merchant market, which is represented by John
9 Ryan of Weil, Gotshal & Manges.

10 As Chris mentioned in his opening remarks, all of
11 the statutory indicia of material injury are present in
12 this case. Import volumes are up dramatically. Low-
13 priced imports are causing price suppression and price
14 depression, and the economic and financial performance of
15 the U.S. industry has deteriorated since 2004. This
16 panel, this morning, will address each of these factors.

17 I would like to now start with Mr. Perry Davis,
18 the president of Leggett's Bedding Group, who will
19 discuss Leggett's innerspring operations.

20 MR. DAVIS: Good morning. My name is Perry Davis.
21 I am the president of Leggett's Bedding Group, and that
22 includes the innerspring operations for our company.
23 I've been involved in the U.S. innerspring market for
24 over 27 years. As the president of the bedding group, I
25 oversee all aspects of the business, including both

1 production and sales.

2 Leggett is a global company, headquartered in
3 Carthage, Missouri. We currently have five business
4 segments: residential furnishings, which includes our
5 bedding group; commercial fixturing and components;
6 aluminum products; industrial materials; and a
7 specialized products division.

8 Although Leggett started in 1883 as a bedding
9 components manufacturer, in 2006, the bedding group,
10 which includes more than just innersprings, accounted for
11 only 15 percent of Leggett's total sales. Consequently,
12 Leggett's innerspring operations are less than 15 percent
13 of Leggett's total sales.

14 I mention this because, in the hearing on the 421
15 case, the Chinese producers spent a lot of time focusing
16 on Leggett's overall operations, not just the innerspring
17 operations. As you can see from our questionnaire
18 response, the economic and financial performance of our
19 U.S. innerspring operation have deteriorated
20 significantly since 2004, as low-priced, unfairly traded
21 subject imports have entered the U.S. market in ever-
22 increasing volumes. I want to assure you at the outset
23 that we did not take this decision to file lightly.

24 In 2006, approximately 21 percent of Leggett's
25 total trade sales for all segments were generated by

1 products which were manufactured overseas. Our
2 innerspring operations are global. We have production
3 facilities in the United States, Canada, Mexico, Brazil,
4 Croatia, Denmark, Spain, the United Kingdom, China, and
5 South Africa.

6 We sell innersprings throughout the world.
7 Because we're a global company, Leggett is a strong
8 advocate for international trade, but that trade must be
9 fair, and for the past several years, and, in particular,
10 since 2004, we've seen rapidly increasing quantities of
11 very low-priced imports from China, South Africa, and
12 Vietnam.

13 These low-priced imports have had a material
14 impact on our U.S. innerspring operations. As you can
15 see from the petition, low-priced imports have also
16 driven out several of our competitors, such as Saval and
17 Atlas, from the market. I think it worth mentioning that
18 we competed head to head with these companies for decades
19 without them shutting down. It was only when low-priced
20 imports entered the market in large quantities that they
21 could no longer stay in business.

22 In 2004, Leggett manufactured innersprings at nine
23 branches, operated 21 distribution centers, which were
24 located throughout the U.S. As a direct result of lower
25 sales volumes, lower revenue, lower operating income, and

1 erosion of our margins caused by the subject imports,
2 we've been forced to close three manufacturing branches,
3 reduce our overall capacity, and shut down several
4 distribution centers.

5 We now produce innersprings in Carthage, Missouri;
6 Ennis, Texas; Highpoint, North Carolina; Monroe, Georgia;
7 Tupelo, Mississippi; and Winchester, Kentucky.

8 Low-priced subject imports did not just affect our
9 numbers, which you can see in the questionnaire response
10 we filed; they also affect our people. From 2004 to
11 2006, we were forced to reduce our production-related
12 workers by more than 12 percent. Unfortunately, we had
13 to eliminate even more positions during 2007. We're
14 currently in the process of evaluating all of our
15 innerspring operations, and there is a strong likelihood
16 that we'll have to further consolidate our operations,
17 which would result in even more layoffs.

18 Our other workers have also suffered, as we've had
19 to shut down production on numerous days due to a stark
20 drop in sales. Of course, our workers are not the only
21 ones that suffered. We know that Atlas laid off over 200
22 workers when it ceased operations in '06, and I
23 understand that Hickory's workers are also suffering
24 because of imports.

25 In addition to the material injury that low-priced

1 imports have caused us and the rest of the industry since
2 '04, we're also very concerned about the future. We've
3 had to reduce our capacity and our production. We have
4 lost market share, lost sales, and had lower levels of
5 operating income and operating margins since 2004, at a
6 time when overall demand was growing modestly.

7 Now we appear to be entering a period of weaker
8 economic demand, and our performance could possibly drop
9 even lower. Demand is closely tied to the housing
10 market, and, as you know, the housing market is not good.
11 We were hoping for improvement by the end of 2008, but
12 now it looks increasingly that housing will not rebound
13 until mid-to-late 2009.

14 All of this while our input costs are increasing
15 dramatically. We expect our performance will deteriorate
16 further, as low-priced, unfairly traded imports continue
17 to increase market share.

18 We're now in the process of closing the fourth-
19 quarter results for 2007. We will provide details in the
20 post-conference submission because the information is
21 confidential. But I can tell you right now, the fourth
22 quarter results continue to deteriorate.

23 I mentioned at the outset how Leggett is a global
24 company with production in two of the subject countries.
25 I would like to address one question that arose in the

1 421 case, and that is, why doesn't Leggett import
2 innersprings from China?

3 In the 421 case, the Chinese exporters argued that
4 Chinese producers do not have significant cost
5 advantages; otherwise, Leggett would import from China to
6 the United States. The Chinese respondents were
7 misinformed.

8 Leggett's operations in China are very different
9 from the typical Chinese producer. Our Chinese
10 facilities are generally more automated, while the
11 Chinese producers rely more on manual labor. In
12 contrast, it is our understanding that most Chinese
13 innerspring producers continue to manually assemble and
14 sew the units together by hand. These Chinese producers
15 have labor rates and other input costs in China that are
16 a fraction of those costs in the U.S. It's not unusual
17 for us to see imports priced at levels that are below our
18 cost of production in the United States.

19 I also want to point out that Chinese capacity has
20 skyrocketed in recent years. The Chinese Furniture
21 Association estimates that the Chinese innerspring market
22 is approximately 15 million pieces. To give you a sense
23 of scale, we think the U.S. market is around 20 to 21
24 million pieces.

25 In conclusion, I want to stress that we're a low-

1 cost, efficient, innerspring manufacturer with over 120
2 years of experience in this industry. We're constantly
3 looking for ways to develop new products, control costs,
4 and provide value to our customers and shareholders.
5 Despite all of these factors, we simply cannot continue
6 to compete against low-priced, unfairly traded imports.

7 Thank you for the opportunity to appear here
8 today, and I look forward to answering any of your
9 questions.

10 MR. BAISBURD: Thank you, Perry.

11 I would now like Leigh Salyer to talk about the
12 product itself and the innerspring market in the United
13 States.

14 MR. SALYER: Good morning. My name is Leigh
15 Salyer, and I am group vice president, Demand Management,
16 for Leggett's Bedding Group. I've been with Leggett for
17 over 10 years and have worked in the bedding industry for
18 more than 25 years. My current responsibilities include
19 sales forecasting and managing shifts in supply and
20 demand in the innerspring market.

21 Before discussing the impact that low-priced
22 imports have had on our operations, I wanted to take a
23 moment to discuss the product and how it is produced.

24 Uncovered innersprings are the guts of an
25 innerspring mattress. Chances are that the mattress you

1 sleep on is an innerspring mattress because innerspring
2 mattresses account for nearly 90 percent of all
3 mattresses sold in the United States. When we say
4 "uncovered," we simply mean that the innerspring unit has
5 not been surrounded by the foam and other materials that
6 mattress manufacturers use to produce the finished
7 innerspring mattress. In other words, a covered
8 innerspring would be the finished mattress.

9 All uncovered innerspring units are manufactured
10 from individual coils that are joined together into
11 predetermined standard sizes that correspond to the size
12 of the finished innerspring mattress, such as twin, full,
13 queen, et cetera.

14 Uncovered innersprings can be divided into two
15 categories, pocketed and nonpocketed innersprings, which
16 Chris has put on the table here with us. Nonpocketed
17 innersprings generally contain three elements: coils,
18 helical wires, and borders. There are several types of
19 coils, including Bonnell, offset, LFK, and continuous
20 coils.

21 Nonpocketed innerspring units are generally rows
22 of individual or continuous coils laced together with
23 helical wire. Nonpocketed coils are generally clipped to
24 wire borders that help the unit maintain its shape.
25 However, not all nonpocketed innersprings have borders.

1 Most notably, nonpocketed innersprings used in foam and
2 cased applications do not have borders.

3 Pocketed coils are individual coils that are
4 inserted into fabric pockets. Rows of pocket coils are
5 then glued together in standard sizes that correspond to
6 the finished mattress sizes.

7 The production process for pocketed and
8 nonpocketed innersprings is very similar. The first step
9 is to form individual wire coils using a coiler. For
10 pocketed coils, the individual coils are inserted into a
11 nonwoven fabric pocket. The individual coils, whether
12 pocketed or nonpocketed, are then assembled into the size
13 that corresponds to the final mattress. After assembly,
14 nonpocketed coils are laced together using helical wires,
15 while pocketed coils are glued together.

16 I think it is important to point out that there
17 are very low barriers to entry into this market. The
18 basic production process and technology know-how has not
19 changed in decades. Innerspring units manufactured from
20 pocketed coils are interchangeable with innerspring units
21 manufactured from nonpocketed coils. Mattress
22 manufacturers can use either type of innerspring in a
23 unit to produce an innerspring mattress. Mattress
24 manufacturers use pocketed versus nonpocketed
25 innersprings based on consumer preferences and marketing

1 conditions.

2 While pocketed coils tend to command higher
3 prices, there is overlap in prices for certain pocketed
4 and nonpocketed innersprings. For example, heavy gauge
5 offset coil innersprings are, in some cases, sold for
6 higher prices than certain pocketed coils.

7 I would like to now talk about the U.S.
8 innerspring market in general. There are two types of
9 innerspring producers: those such as Leggett and Hickory
10 Springs that sell to the merchant market and maker-users
11 such as Sealy, Simmons, and Symbol that internally
12 consume the innersprings they produce. We estimate that
13 the total U.S. market for innersprings is approximately
14 21 million pieces, of which approximately one-third is
15 covered by the maker-users.

16 Perry has already mentioned some of the ways in
17 which imports adversely affected the merchant market, and
18 you will see that in greater detail in the questionnaire
19 responses. Low-priced, unfairly traded imports also
20 directly affect the maker-users, such as Symbol Mattress,
21 Sealy, and Simmons.

22 For example, it's my understanding that some
23 maker-users have reduced production as they have started
24 to purchase low-priced imports. I also understand that
25 maker-users are being forced to lower the prices of

1 certain finished mattresses in order to compete with
2 other mattress manufacturers that are using low-priced
3 innerspring imports.

4 Low-priced subject imports are now available
5 everywhere. Geographically, we are seeing Chinese
6 imports throughout the United States, including both
7 coasts and the Southeast and in the Central United
8 States.

9 Vietnamese imports are primarily in the Gulf
10 Region and the West Coast, and South African imports are
11 primarily in the Gulf region and on the East Coast.

12 In terms of customers, we've seen large, medium,
13 and even some small customers switching to low priced
14 imports. One of our largest customers is now purchasing
15 imports. We will provide more detail in the post-
16 conference submission. But to give you a sense of the
17 magnitude of the problem, our sales to customers were
18 approximately 940,000 units in 2005, and 840,000 pieces
19 in 2006. In 2007, we sold them 450,000 pieces, which 40
20 percent of those were actually sold in the first quarter
21 of 2007.

22 This is just one example. We've provided many
23 more examples in Exhibits 18 and 24 of the petition. You
24 can see in those exhibits how our sales, volume, and
25 value have diminished to customers that are buying

1 increasing quantities of imports.

2 Overall, our sales volume has fallen significantly
3 since 2004. Based on conversations with our customers,
4 we know that we are losing those sales to subject
5 imports, not other U.S. producers.

6 Our sales values have fallen even further. This
7 is due to several factors. First, for some customers,
8 we've had to lower prices to meet the price of the
9 imports. This has had the effect of lowering our average
10 unit selling values for innersprings.

11 Second, there has been an unprecedented increase
12 in foam and other raw materials that have been passed on
13 to the mattress manufacturers. These manufacturers are
14 looking for ways to reduce their costs. Increasingly,
15 some of these manufacturers are switching from higher
16 value innersprings to Bonnell-type innersprings.

17 Most imports are Bonnell-type innersprings. Our
18 sales of Bonnells have not increased since 2004, which
19 means that our high value innersprings are competing with
20 imported Bonnell-type innersprings; and that
21 increasingly, mattress manufacturers are switching to
22 those imports.

23 The importers will almost certainly say that they
24 had no choice because Leggett has increased prices since
25 2004. Let me clarify some misconceptions about those

1 price increases. Leggett increased prices in 2004 in
2 light of unprecedented increases in our raw material
3 costs. In particular, scrap and wire rod prices
4 increased over 100 percent in a short amount of time.

5 However, because of the presence of low priced
6 imports, we were unable to fully recover all of our
7 additional costs. We also announced a price increase in
8 April of 2007. That price increase met with significant
9 resistance from many customers. We lost additional
10 business to low priced imports. It is important to note
11 that even with these price increases, we were still not
12 able to pass through all of the higher costs, because of
13 the increasing presence of low priced imports.

14 We are once again facing rapidly escalating raw
15 material costs, and will continue to have difficulty
16 recouping those cost increases, so long as imports are
17 being sold at unfair prices.

18 Unfairly traded imports have also reduced our
19 operating income and eroded our operating margins. This
20 is the case, even when you eliminate all inner-company
21 profit.

22 Our performance is even worse when you look at the
23 market value of imports, which is the true measure of the
24 profitability of our innerspring operations, as reflected
25 in our normal books and records.

1 I would like to point out that the vast majority
2 of our innerspring costs are variable. Therefore, when
3 our customers are offered absurdly low prices for
4 imports, it simply makes no sense for us to try to
5 compete for that business. We simply lose the business,
6 as you can see in the sales information provided in our
7 response. That is why the erosion in our operating
8 margins is not even greater.

9 At the risk of stating the obvious, we are in the
10 business to make money, and we cannot do so if we are
11 selling innersprings at a loss. That said, we should be
12 forced to walk away from business because low price,
13 unfairly traded imports are being sold at prices that
14 violate U.S. trade laws. Thank you for your time, and
15 I'm happy to answer any questions you have.

16 MR. BAISBURD: As the Commission knows from the
17 421 investigation, there has been a long-standing issue
18 with classification of imported innersprings, that
19 they're not being classified in the correct provision.
20 So Wendy Watson, a Special Associate Counsel from Leggett
21 & Platt, would like to address that issue.

22 MS. WATSON: Good morning, my name is Wendy
23 Watson. I am an Associate Special Counsel for Leggett &
24 Platt. Among my responsibilities, I have been working
25 closely with U.S. Customs for several years to address

1 the pervasive problem of misclassified innersprings. I
2 wanted to take a few minutes to explain what the problem
3 is, and the potential magnitude of the misclassification.

4 Uncovered innersprings should be classified under
5 HTS sub-heading 94-04-299010, which covers uncovered
6 innerspring units. That sub-heading carries a six
7 percent duty.

8 Based on the market intelligence we gather, our
9 review of trade data from services such as PIERS, and
10 conversations with Customs, we know that importers are
11 using a variety of other classifications to import
12 imported innersprings. We think this is such a big
13 issue, that we have a dedicated person to monitor imports
14 and identify misclassification.

15 It will not surprise you to learn that these other
16 classifications are either duty-free or have duties that
17 are nearly half the six percent duty that applies to
18 uncovered innersprings, classified under 94-04-299010.

19 The Commission must take these other
20 classifications into account in order to see the true
21 level of imports. For example, sub-heading 73-20-905010
22 applies to other wire springs that are suitable for use
23 in mattress supports and mattresses of heading 49-04.

24 This provision applies to individual springs or
25 coils, not assembled innerspring units. We are not aware

1 of any U.S. manufacturer that imports individual springs,
2 and then assembles them in the U.S. There is simply no
3 way that U.S. manufacturers are importing individual
4 springs, assembling them, and then sewing them with the
5 Helleca wires in the United States. It makes no economic
6 sense to perform those labor-intensive operations here in
7 the U.S., rather than in China, South Africa, or Vietnam.

8 If you look at the official import statistics for
9 this sub-heading, you will see that imports have surged
10 from approximately 193,000 kilograms in 2004, to 11.4
11 million kilograms just in the first three quarters of
12 2007.

13 We estimate that the average per-unit weight of
14 imported innersprings is approximately 35 to 40 pounds,
15 or 16 to 18 kilograms per unit, given the typical mixes
16 of sizes in a container. That means that this provision
17 alone probably accounts for more than 600,000 to 700,000
18 additional pieces. This is at least 60 percent of the
19 volume in the correct classification, 94-04-299010.

20 The same is true for sub-heading 73-20-205010,
21 which applies to Helleca springs, suitable for use in
22 mattress supports and mattresses of heading 94-04.
23 Imports under this heading have jumped from 970,000
24 kilograms in 2004, to 2.3 million kilograms in the first
25 three quarters of 2007.

1 Once again, it is inconceivable that U.S.
2 manufacturers are importing individual Helleca springs,
3 and then using these Helleca springs to sew innerspring
4 units together in the U.S.

5 We also understand that importers have classified
6 innersprings as mattress supports under 94-04-100000, and
7 as other articles of steel wire under 73-26-200070.
8 Mattress supports are generally referred to as box
9 springs or foundations. These are the products that are
10 placed under the finished mattress to support it.

11 Mattress supports are not the innerspring unit
12 that is placed inside the mattress. We find it hard to
13 believe that box springs are being imported into the
14 United States in the quantities found in the sub-heading
15 94-04-100000. Box springs or foundations are rigid,
16 because they contain wood or steel frames. They cannot
17 be compressed, and it would be economically inefficient
18 to ship them long distance, since you can't get many box
19 springs in a container.

20 We know that a significant portion of the imports
21 classified under 94-04-100000, which is the mattress
22 support sub-heading, are in fact innerspring units.

23 When you consider the innersprings that are being
24 classified under these other headings, we believe that
25 just through November 2007, there are close to two

1 million additional pieces of innersprings that are not
2 captured by the official statistics for sub-heading 94-
3 04-299010.

4 Import volumes in the official import statistics
5 for 2004 to 2006 are also substantially under-stated. It
6 is critical that the Commission ensure that the importers
7 report all innerspring imports, regardless of how they
8 classified the innersprings.

9 It is also critical that the Commission ensure
10 that it obtains comprehensive coverage of importers and
11 exporters, so that the Commission has sufficient accurate
12 data to make its decision.

13 While we are confident that the record shows a
14 reasonable indication of injury, the Commission should
15 also be mindful that any gaps in the record, such as the
16 true levels of imports and capacity of foreign producers,
17 can be filled when the investigation proceeds to the
18 final phase.

19 Thank you, and I'll look forward to answering any
20 additional questions you may have.

21 MR. BAISBURD: Thank you, Wendy; good morning,
22 once again. You've heard directly from Leggett how
23 increasing levels of low priced imports have affected
24 their operations. I just wanted to take a moment to put
25 that information into the statutory framework that we all

1 are so familiar with.

2 Let me start with the like product. We believe
3 the Commission should find one like product that covers
4 all innersprings. All innersprings have similar physical
5 characteristics and uses. They are all formed from
6 individual coils that are joined together into pre-
7 determined sizes that correspond to the size of the
8 finished mattress.

9 All innersprings are used to produce innerspring
10 mattresses. Pocketed and non-pocketed coils are
11 interchangeable, because either type can be used to
12 produce the finished mattress.

13 All innersprings are sold in similar channels of
14 distribution, primarily directly to end users; the
15 mattress manufacturers. Customers and producers consider
16 all innersprings to be like product because either type
17 of innerspring, whether pocketed or non-pocketed, can be
18 used to manufacture mattresses.

19 Pocketed and non-pocketed innersprings are also
20 generally produced at the same facilities and with
21 similar production processes, as we explained this
22 morning. Finally, there is significant overlap in the
23 prices of pocketed and non-pocketed innersprings.

24 Just a quick word about cumulation -- all of the
25 statutory factors for cumulation are present in this

1 case. The subject imports are completely interchangeable
2 with each other and the like product. Therefore, there's
3 a high degree of fungibility between subject imports and
4 the like product.

5 There's also significant overlap of competition
6 between subject imports and the like product, as both are
7 sold nationally and in the same channels of distribution.
8 Finally, subject imports have been simultaneously in the
9 market with each other and the like product throughout
10 the period of investigation.

11 I want to now take a moment to briefly highly the
12 statutory injury factors; first, the volume effects.
13 There is no question that subject imports have jumped
14 since 2004. Even if we look just at the official import
15 statistics for 94-04-209010, we see that imports have
16 jumped from just under 700,000 pieces in 2004, to more
17 than 1.9 million pieces in 2006.

18 When you take into account that subject imports
19 are also being classified outside of 94-04-299010, the
20 volume is significantly higher. There are virtually no
21 non-subject imports in the market. That means that there
22 is direct, head-on competition between the domestic like
23 product and subject imports.

24 Consequently, the gains that the subject imports
25 have made, and any future gains as they continue to

1 increase their export volumes to the U.S., are directly
2 at the expense of the market share of the U.S. producers.

3 Subject imports have also had a material impact on
4 U.S. producers. You can see this impact in what happened
5 to Atlas Spring and Saval Spring, and the deterioration
6 of the economic performance of the remaining U.S.
7 producers.

8 The record also establishes the disastrous impact
9 that low priced imports have had on domestic prices. The
10 record shows both price suppression and price depression.
11 There is no question that U.S. producers are facing a
12 cost price squeeze.

13 During the POI, there have been significant
14 increases in raw material costs, as you heard this
15 morning. Even with some price increases in the period,
16 U.S. producers have not been able to fully recoup these
17 higher costs, because of the aggressive pricing that
18 subject imports rely on to gain market share in the U.S.
19 market. The cost price squeeze in having to lower prices
20 to meet import prices that are very low have had a
21 material impact on the bottom line of U.S. producers.

22 Simply put, the aggressive pricing of subject
23 imports have cost U.S. producers millions of dollars.
24 Low priced imports have had a stark impact on the
25 economic and financial performance of U.S. producers, as

1 a result.

2 As you can see in the petition, we are confident
3 the record will show in the questionnaire responses all
4 of the traditional economic factors that the Commission
5 looks at have deteriorated since 2004. Capacity,
6 production, shipment, sales, operation income, operating
7 margin, employment, have all dropped as subject imports
8 increased continuously throughout the POI.

9 Finally, although we believe that the record
10 supports a finding of reasonable indication of material
11 injury, let me take a moment to address the threat.

12 The rapid increase in imports from subject
13 countries shows that these producers have the ability and
14 the desire to quickly expand production, and the strong
15 incentive to sell increasing volumes of low priced
16 imports into the United States.

17 Let me give you a very concrete example. In the
18 421 hearing, the Chinese producer's claimed, "All of the
19 Chinese producers that export to the United States"
20 submitted questionnaire responses. They told the
21 Commission that you had 100 percent coverage on Chinese
22 exporters.

23 Based on that, they said at the hearing that the
24 Chinese capacity in total was 755,000 in 2005; and it
25 would be an "absurd assumption" to think that those

1 Chinese producers would ship 100 percent of that total
2 capacity to the United States.

3 Okay, let's look at those figures and compare it
4 to the official import statistics, which we know are
5 under-stated. In 2005, Chinese producers shipped 1.5
6 million units to the United States, according to the
7 conservative official import statistics. That means the
8 Chinese exports shipped more than twice the amount they
9 claimed was their total capacity. I'll let the staff
10 draw its own conclusion as to the accuracy of the 755,000
11 unit capacity figure, and whether you really received 100
12 percent coverage in the 421 case.

13 But the more important point is that the Chinese
14 capacity is far greater than the 755,000 pieces they
15 claimed in the 421 case. As Lee mentioned earlier, the
16 Chinese Furniture Association estimates the Chinese
17 innerspring mattress market is approximately 15 million
18 units per year. That means there are a host of Chinese
19 producers that have sufficient capacity to flood the U.S.
20 market.

21 Vietnamese and Southeast African producers also
22 have significant capacity, as can be seen in the jump in
23 imports from 2005 to 2006. The Commission must consider
24 threat in the contest of one, the U.S. industry is now
25 vulnerable, given the material injury they have suffered

1 since 2004; two, that demand for innersprings will likely
2 fall as we experience a softening economy; and three, raw
3 material costs are expected to continue to rise.

4 In conclusion, I want to point out that at the
5 hearing in the 421 investigation, the representative from
6 Atlas Spring which, at the time, was the third largest
7 U.S. innerspring producer for the merchant market based
8 in California, stated, "Most, if not all, of the Chinese
9 imports of which I am aware are priced below my operating
10 costs. If I match those prices, I will go out of
11 business in a few years. If I don't match those prices,
12 I will go out of business even quicker."

13 Sadly, he was right. Atlas Spring went out of
14 business in 2006, after sustaining substantial losses.
15 The U.S. industry is asking for relief, so that history
16 does not repeat itself.

17 Thank you very much for your attention, and we
18 look forward to answering your questions after Hickory
19 Springs gives its testimony.

20 MR. RYAN: Good morning, Mr. Carpenter and members
21 of the Commission staff. I'm John Ryan of Weil, Gotshal
22 & Manges, and I'm accompanied today by Seth Bayles of our
23 firm. We represent Hickory Springs Manufacturing
24 Company. Mr. Bush, Executive Vice President of Hickory
25 Springs will be testifying.

1 We would request that the Commission amend the
2 calendar to reflect Mr. Bush. His name was apparently
3 inadvertently left off the list.

4 MR. CARPENTER: We will do that.

5 MR. RYAN: Okay, thank you very much.

6 MR. BUSH: Good morning, Mr. Carpenter and members
7 of the Commission staff. My name is Jimmy Bush, and I'm
8 Executive Vice President of the Wire Products Group at
9 Hickory Springs.

10 A major part of this group is the Bedding Products
11 Division, which has innerspring plants in Micaville,
12 North Carolina; Sheboygan, Wisconsin; and Holland,
13 Michigan.

14 Hickory Springs is a privately-held family
15 business, formed in 1944 and headquartered in Hickory,
16 North Carolina. My responsibilities, although fairly
17 comprehensive, are overseeing normal business activities,
18 ongoing strategic planning, and maximizing profitability
19 of these locations and the welfare of their employees.

20 My company manufactures innerspring units. These
21 units are the guts of an innerspring mattress. They are
22 composed of a series of coils that are laced together and
23 bound by a heavier border rod; or that are inserted into
24 fabric pockets, and then bound by a web of non-woven
25 fabric, and secured by an adhesive.

1 They are manufactured as a unit. That is, we make
2 twin size, a full size unit, and so on. These individual
3 units are shipped to our customers, who use them in the
4 manufacture of mattresses.

5 The innerspring industry in the United States is
6 composed of two major groups. The first consists of
7 innerspring producers that supply mattress manufacturers
8 with their innerspring needs. When I appeared before the
9 Commission in the 2004 case of innerspring units from
10 China, this merchant market supplier group included
11 Hickory Springs; Leggett & Platt of Carthage, Missouri;
12 Atlas Spring of Gardena, California; and Saval Springs
13 of Detroit, Michigan. Of these, only Hickory Springs and
14 Leggett & Platt remain in business.

15 The second group of innerspring producers is
16 comprised of innerspring mattress producers. This group
17 manufacturers innerspring for their own consumption and
18 the production of finished mattresses. This group
19 consists of Sealy of Trinity, North Carolina; Simmons of
20 Atlanta, Georgia; Simball Sleep Products of Richmond,
21 Virginia; and Dixy Bedding of Miami, Florida. Most, if
22 not all, of these integrated mattress producers buy some
23 of their innerspring usage from merchant market
24 suppliers.

25 The majority of the industry is made of large,

1 moderately sized, and smaller mattress companies that do
2 not produce their own innersprings; but instead, rely on
3 merchant market suppliers to supply their needs.

4 Hickory Springs has had a sizeable business supply
5 in mostly moderate to smaller sized mattress producers
6 for quite some time. The U.S. innerspring market is made
7 up of a relatively small number of producers and
8 customers. Our business tends to be done on a
9 relationship basis, rather than on a order-to-order or by
10 contract.

11 The customer either requests a quote for an
12 innerspring that he is using or that he may want to use,
13 or we submit one on units that we know he is using or
14 products that could replace what he is using.

15 Negotiation, feedback, dialogue back and forth
16 occurs until either a price that is satisfactory to both
17 is found, or until we determine we cannot make a profit
18 on the sale. We do not tend to operate with set price
19 lists in our industry. Not only is this a tradition of
20 the business that has developed; but it also reflects the
21 individualized nature of our relationships.

22 Regarding the nature of the product, we believe
23 there is a single product that should be investigated by
24 the Commission: innerspring units; regardless of size or
25 whether they are pocketed or non-pocketed coil units.

1 Prices for both pocketed and non-pocketed coil
2 innerspring units overlap to a considerable extent for
3 the same size units.

4 Consumers readily interchange pocketed and non-
5 pocketed innerspring units, in mattresses of the same
6 dimensions. In addition, the same production facilities
7 and workers can produce both pockets and non-pocketed
8 innerspring units. Thus, a division of the market and
9 product into pocketed and non-pocketed innerspring units
10 would not be meaningful, and would be contrary to
11 commercial realities.

12 Since the Commission last looked at the issue,
13 imported innersprings have increased rapidly in terms of
14 number of units sold in the United States. Imports
15 compete for the same sales to the same customers that
16 Hickory Spring has supplied for many years.

17 The increase in import volume has come at the
18 direct expense of lower sales volume from domestic
19 innerspring unit manufacturers.

20 In 2004, imports had just begun to enter the U.S.
21 market in a tangible way. The first effects were felt on
22 the West Coast; and producers there, Atlas Spring and the
23 western division of Leggett & Platt, were the first to
24 suffer the consequences of low priced import competition.

25 Today, there is no competition from a few years

1 earlier than this. They were the first imported
2 innersprings offered in the area; and after some initial
3 start-up adjustments, mainly due to quality, they began
4 making inroads against domestic producers.

5 But this is a national market. We compete for
6 sales throughout the United States, and we have seen the
7 effects of imports on our prices throughout the United
8 States.

9 Imports have hit us in every segment of the market
10 in which we sell: large accounts, moderately sized
11 producers, and smaller producers of mattresses, and
12 across a broad range of sizes. Imports have been
13 particularly aggressive in going after sales to these
14 moderately to smaller sized customers, as opposed to the
15 larger branded customers such as Simmons, Sealy, and
16 Serta.

17 Atlas Spring, which went out of business in 2006,
18 was predominantly supplying these independent bedding
19 manufacturers. Imports have made it difficult to
20 impossible to sell at a reasonable price to these
21 customers.

22 However, integrated producers have also not been
23 immune to the low prices being offered for off-shore
24 innerspring units. Some of them have bought imports
25 because they cost less than they can make them for.

1 As a result of ever-increasing volumes, Hickory
2 Springs has lost considerable sales volume and market
3 share. Evidence of this has been provided to the
4 Commission in our business confidential response to the
5 Commission's questionnaire.

6 A large portion of domestic production of
7 innerspring units is internally used by integrated
8 mattress manufacturers such as Sealy and Simmons, which
9 account for one-third of U.S. innerspring consumption.
10 When the Commission evaluates the volume of imports, the
11 Commission should consider the share of merchant market
12 sales that have been taken by imports.

13 That import market is far greater than simply
14 looking at total U.S. consumption, without regard to
15 whether innersprings are internally consumed or supplied
16 by other manufacturers.

17 Let me go back to 2004 to make one more point.
18 Back then, it was reported to the Commission that a
19 number of innersprings coming into the country, as
20 reported by the U.S. Customs Office, was vastly under-
21 stated. The practice then, which continues today, is to
22 ship innersprings into the U.S. deliberately
23 misclassified into tariff categories. They carry no
24 import duties or a three percent, in order to avoid the
25 six percent duty on innersprings.

1 This greatly minimized the perceived impact on the
2 U.S. merchant market. Hickory Springs believes that the
3 volume of misclassified innersprings is greater than the
4 volume of properly classified innersprings.

5 I strongly urge the Commission to fully
6 investigate and collect information regarding these
7 misclassified imports, and include them in the total in
8 order to evaluate the full effect on the domestic
9 producer.

10 Imported innerspring units are directly
11 interchangeable for the same size product produced by
12 Hickory Springs. Hickory Springs takes pride in the
13 quality of the innersprings that we produce. However,
14 when imported innerspring units of the same specification
15 are offered for far below our prices and cost of
16 production, as has been increasingly the case since 2004,
17 we confront serious negative effects on our prices.

18 Raw materials, particularly steel, have increased
19 in cost since 2004. Even before increases in raw
20 materials, prices were under severe pressure, due to
21 price under-cutting by imports. Low priced imports,
22 however, have prevented prices from pricing as costs have
23 risen.

24 In 2007, we announced price increases to go in
25 effect on January 7, 2008. But primarily due to lower

1 prices offered by importers, we have been unable to push
2 through that price increase.

3 Beginning in 2005, imported innersprings began
4 making the trip across the U.S. At first, they were
5 being offered to medium sized manufacturers at prices
6 between 25 to 30 percent below market. Soon, smaller
7 bidding companies were getting into the act, and pricing
8 of imports dropped even further, to 35 percent less.

9 Up until 2004, Leggett & Platt, the largest
10 merchant market supplier, was in a position to lead
11 prices in the U.S. market. Leggett & Platt would
12 generally make a price announcement several weeks in
13 advance, and the market would follow suit.

14 These increases were generally preceded by
15 increases in steel prices. Since imports became a major
16 factor in the market, that is no longer the case.

17 While Leggett & Pratt's pricing policies made some
18 sense to us, there is no rhyme nor reason to the pricing
19 policies followed by imports; particularly from China.

20 There does not appear to be a bottom line.
21 Chinese producers and exporters have been willing and
22 able to make sales at prices far below our cost of
23 production. When we try to make a sale to one of our
24 long-time customers, that is at the same time being
25 offered imports of the same product, our choices are to

1 follow the import pricing down to the point where profits
2 are eliminated, or to abandon the sale.

3 Even when we are able to make the sale, we do so
4 at prices that are substantially lower than they would
5 have been, without the threat of a lawsuit hanging over
6 us, in our discussions with customers.

7 Chinese and other import prices are substantially
8 below the manufacturing cost of Hickory Springs. These
9 prices leave no room to negotiate, if we intend to stay
10 solvent. As a result, other domestic producers have
11 simply folded, and those that remain are under intense
12 pressure.

13 Hickory Springs activity participated in a 2004
14 proceeding, because we foresaw imports from China quickly
15 becoming the driving force in the market. Prices being
16 offered for imports from China were substantially below
17 our cost of production.

18 The past three years have shown that our concerns
19 regarding the threat from China were not unwarranted and,
20 in fact, the situation has become worse than we could
21 have anticipated.

22 Imports, initially from South Africa, but now
23 increasingly from China and Vietnam, have become the low
24 price leaders. Hickory Springs can either meet low
25 priced imports or walk away from sales. Hickory Springs

1 has lost a considerable volume of sales to import
2 competition. Even when we are able to retain sales, we
3 do so at much lower prices.

4 In 2004, the negative effect of imports had just
5 started to be felt by domestic innerspring producers.
6 The initial effect has grown into an avalanche-like
7 effect. At the end of 2004, we had 308 employees
8 directly involved in the production of innersprings.
9 Today, that number is 229.

10 This does not include employee reduction at other
11 Hickory Springs divisions, such as our wire drawing
12 plant. We do not sell as many innersprings as we used
13 to. We do not need as much wire.

14 Lower prices on the sales we have retained and our
15 inability to raise prices as costs have risen, directly
16 affect our ability to profitability produce innerspring
17 units. The integrated producers like Simmons and Sealy
18 are also affected by low priced imports. However, the
19 innerspring units accounts for a significant share; but
20 not the majority of the cost to produce a mattress.
21 Thus, the overall financial performance of the integrated
22 producer primarily reflects their mattress production and
23 not their innerspring production.

24 Without anti-dumping duties, ever increasing
25 volumes of low priced imports will cause even greater

1 harm to Hickory Springs in the immediate future. The
2 recent trends in imports, which are directly tied to the
3 changes in my company's profits, production, and
4 employment, are ominous. We have lost major sales to
5 import competition. The prices now bear no relation to
6 cost of production. This cannot be allowed to continue.

7 When I appeared before the Commission in 2004, I
8 was accompanied by Jeff Miller of Atlas Springs
9 Manufacturing. Atlas Springs, like Hickory Springs, was
10 a closely-held company that produced innersprings in the
11 United States for several decades. Like Hickory Springs,
12 Atlas Springs' customer base was primarily small to
13 medium sized mattress manufacturers.

14 Having survived for years competing with other
15 domestic suppliers, Atlas was forced out of business as
16 imports took over their market in the past three years.
17 Atlas shut down its operation and laid off all of its
18 employees in 2006. Hickory Springs has decided to take
19 an active role in this proceeding, because we do not want
20 to suffer the same fate.

21 We take pride in the products we produce, and
22 employ skilled and dedicated workers at our manufacturing
23 facilities. But with the ever increasing volume of
24 imports being offered at prices below our cost of
25 production, our livelihood is under attack. Without

1 relief from unfair import competition, it will be
2 increasingly hard for Hickory Springs to stay in the
3 innerspring business.

4 If the rate of increase of imports continues and
5 price undercutting is unabated, Hickory Springs will face
6 some very hard choices. We intend to do all we can to
7 maintain our long-established and highly regarded
8 business; and we expect the Commission to recognize that
9 absent an affirmative determination, that will be
10 extremely difficult.

11 Thank you, and I would be pleased to answer any
12 questions you might have.

13 MR. RYAN: Good morning, again, this is John Ryan
14 of Weil, Gotshal. I have two requests and one short note
15 on legal standard.

16 Because of the magnitude of misclassified subject
17 imports, we would request, as I'm sure the staff will be
18 anyway, that the staff be vigilant in tracking down the
19 misclassified imports, particularly in the final phase of
20 this investigation when you have more time, and to
21 present the data in the staff report.

22 In addition, to allow the Commission to make a
23 complete assessment of the effect of imports in light of
24 the conditions of competition that prevail in this
25 market, we would request that the staff report present

1 import market share as a percentage of available merchant
2 market sales, as well as overall consumption, including
3 internal consumption.

4 Finally, I have a note about the legal standard.
5 When the Commission looked at this market in 2004, it
6 applied the legal standard of 421, of course, market
7 disruption. There the Commission looked at whether
8 imports are rapidly increasing, either absolutely or
9 relatively, so as to be a significant cause of material
10 injury or threat of material injury to the domestic
11 industry.

12 The Commission, at that time, looked to the
13 Section 201 statute for a meaning of material injury,
14 rather than Title VII statute. So that was quite a high
15 standard of injury that the Commission was applying.

16 I would submit that if the Commission were to look
17 at this record as it stands today, under that legal
18 standard, the Commission's determination would have been
19 far different and likely would have been an affirmative
20 determination, because we do have rapidly increasing
21 imports. They are a significant cause of material
22 injury; that is, that we've heard about this morning.

23 But that's not the legal standard of this case, of
24 course. This is a Title VII case, and we are looking at
25 whether there's material injury or threat thereof by

1 reason of the subject imports. By that far lower
2 standard, of course, we are fairly confident that the
3 Commission will issue an affirmative determination. Even
4 looking further down the line on legal standards, we have
5 here only a reasonable indication at this preliminary
6 stage.

7 So with that in mind, we look forward to any
8 questions the staff might have.

9 MR. CARPENTER: Thank you very much, panel, for
10 your testimony. We appreciate your coming here today.
11 We'll begin the staff questions with Jim McClure, the
12 investigator.

13 MR. MCCLURE: Jim McClure, Office of
14 Investigations -- I want to thank everybody for being
15 here and for their testimony. Let's get straight to this
16 misclassification issue.

17 As you know, in our imported questionnaire, we put
18 four check boxes with respect to, I believe it's Question
19 Roman 25 with regard to the various HTS statistical
20 classifications that importers were bringing in
21 innersprings. Maybe you've had half a dozen who have
22 checked 73-20-905010.

23 At this point, I don't know how good our coverage
24 is, and I don't know how good it will be. I would remind
25 everyone, you've all practiced here a lot. This is a

1 preliminary, and it's a short turn around. So are we
2 going to get 100 percent? We don't know; kind of doubt
3 it.

4 What I would like from everyone here, and this
5 includes Mr. Baisburd, Mr. Ryan, Ms. Mendoza, Mr.
6 Figueroa -- on this classification issue, I'd like you to
7 look at the numbers. I'd like you to look at the issues
8 raised, and in your post-conference brief, give a good
9 faith estimate as to what you believe is being
10 misclassified and what the real level of imports are.

11 Ms. Watson, you said that Leggett & Platt has
12 somebody working 24/7 on this, essentially. Are you
13 saying that everything in 73-20-905010, 73-20-205010, and
14 49-09-100000 is really an uncovered innerspring unit?

15 MS. WATSON: Well, we'd have to examine each
16 individual shipment to know that. But we think that a
17 high percentage in all of those HTS codes are uncovered
18 innerspring units.

19 You know, as to the mattress supports HTS code, it
20 doesn't make sense, because you can't compress a box
21 spring and ship it. It doesn't make economic sense that
22 those shipments would be mattress supports instead of
23 uncovered innersprings. Of course, mattress supports
24 carry no duty and innersprings carries a six percent
25 duty.

1 Again, on the 73-20 code, which are individual
2 springs, we know that the Chinese manufacturers use a
3 labor-intensive process and lace together the springs.
4 Those HTS codes are supposed to cover the individual
5 springs, not the innerspring unit. So, yes, we believe
6 that a high percentage of the 73-20s are also uncovered
7 innerspring units.

8 MR. MCCLURE: Mr. Ryan, do you want to comment?

9 MR. RYAN: Yes, Ms. Watson is certainly a far
10 greater expert on the classification numbers. But I
11 would suggest that in the final phase of the
12 investigation, as you recognize --

13 MR. MCCLURE: Well, we're in the preliminary
14 phase. So address your response to the preliminary
15 phase.

16 MR. RYAN: You cut me off at the pass. I think
17 there are things the Commission could do, when you have
18 more time, to track down the appropriate number for
19 imports. But we will, of course, respond to your
20 question.

21 MR. MCCLURE: Okay, in the meantime, please tell
22 us what your best estimate is. I really want everybody
23 to pay attention to this. Because I can see all kinds of
24 variations on a theme, and I'd like it in your own words.

25 MR. CORR: Mr. McClure, if I could say one thing

1 on that subject. One, we appreciate you taking it very
2 seriously, obviously. But I just wanted to reference the
3 standard in the preliminary, which you are no doubt aware
4 of; that there should be no likelihood that contrary
5 evidence will arise in a final investigation.

6 So to the extent we understand and appreciate the
7 fact that it's difficult to get 100 percent coverage, but
8 to the extent this issue remains outstanding, then the
9 legal standard would impel us to go to a final
10 investigation where we have time before we develop the
11 record.

12 MR. MCCLURE: I trust you're not saying that no
13 response might keep this going?

14 MR. CORR: No, that's not my point. My point is
15 only if there is an expectation that we can get fuller
16 information in a final on this very important issue, that
17 that would militate in favor of an affirmative, yes.

18 MR. MCCLURE: I recognize that. But I do want to
19 emphasize to everybody here the seriousness. I want
20 everybody to give a good faith effort, thank you. I'm
21 sorry to sound crabby, but the stock market probably went
22 down another 50 percent while I was talking.

23 (Laughter.)

24 MR. MCCLURE: Are any imports from any of the
25 three countries of the pocketed product, or is it simply

1 too pricey?

2 MR. SALYER: Yes, there is import to the pocketed
3 product. It's increasing. We didn't see much back in
4 the original 421 case.

5 MR. MCCLURE: And that's from all three sources?

6 MR. SALYER: Primarily, China, South Africa --
7 there is some coming in from Vietnam. But primarily the
8 two major players in the pocketed are China and South
9 Africa.

10 MR. MCCLURE: One thing regarding threat and one
11 of our favorite issues -- again, this is a case of the
12 turnaround time is short in preliminaries and for cases
13 filed on New Year's Eve.

14 Getting information from abroad is a challenge.
15 Any information the domestic side has or respondent's
16 side has, in particular with regard to capacity, foreign
17 capacity, we have some limited response of foreign
18 producer questionnaires.

19 I appreciate the folks who got those to us. If
20 you're still talking to your clients abroad, keep beating
21 on them. We will accept them any time.

22 One thing, I note in the petition, this involves
23 one of our favorite subjects here, the Bratsk analysis.
24 On page 32 of the petition, "Subject imports accounted
25 for over 99 percent of total innerspring imports to the

1 United States so far this year. Consequently, imports
2 from non-subject countries are immaterial." Does
3 everybody at the table agree on that?

4 MR. RYAN: We definitively think there's no Bratsk
5 issue in this case. We wholeheartedly agree with that.

6 MR. MCCLURE: Okay, and respondents, you can be
7 prepared to answer that.

8 MR. BAISBURD: If I can just interrupt for a
9 moment.

10 MR. MCCLURE: Sure.

11 MR. BAISBURD: I'd also point out that those
12 levels are pretty consistent, all the way back to 2004.

13 MR. MCCLURE: Yes, I know as far back as 2004, the
14 non-subjects would have accounted for about 16 percent,
15 and those appear to be from Denmark and Germany. Now,
16 that has dropped, and any non-subject seems to be coming
17 from Mexico and the Dominican Republic.

18 MR. BAISBURD: Again, that's in volumes that are,
19 you know, less than 10 --

20 MR. MCCLURE: It's insignificant. I realize that.

21 MR. BAISBURD: The non-subjects were 16 percent of
22 total imports; but again, less than one percent of what
23 we think the U.S. market is. So we were hopeful that
24 this might be one of those cases before the Commission
25 where Bratsk would be a non-issue; much, I'm sure, to the

1 delight of staff and the Commission.

2 MR. RYAN: If I could just follow-up on what I
3 said before, I think from Hickory Springs' perspective in
4 the market, non-subject imports are just not a factor.
5 That's really what Bratsk goes toward.

6 MR. MCCLURE: Okay, I'm just trying to nail that
7 down. With regard to the closure of Atlas, had Atlas
8 produced anything else besides uncovered innerspring
9 units?

10 MR. SALYER: No, we're not aware of anything else
11 they produced. It was mainly uncovered innerspring units
12 in a variety of types, like those --

13 MR. MCCLURE: Okay, go ahead.

14 MR. DAVIS: I believe, Jimmy, you might be add to
15 that. At one time Atlas was a producer of wire coat
16 hangers. They had a relatively significant business.
17 But I believe towards the end, they exited that business.

18 MR. BUSH: Yes, they did produce coat hangers at
19 one time. But they have been out of it for probably 10
20 years. They did, however, also produce furniture springs
21 -- seamless wire-type springs, used in upholstered
22 furniture.

23 MR. MCCLURE: Wire coat hanger is another product
24 the Commission has investigated. Anyhow, with respect to
25 Atlas' assets, machinery to produce uncovered innerspring

1 units, what happened to those; any idea?

2 MR. DAVIS: Yes, we took possession of that
3 equipment. Obviously, the facility was closed. The
4 facility had been bleeding significantly for a number of
5 months. We basically acquired the assets, and there was
6 some furniture component business. That's another
7 division of Leggett, furniture.

8 MR. MCCLURE: Right, right.

9 MR. DAVIS: Those assets though that were
10 dedicated towards the production of innerspring were shut
11 down, and they're in storage or have been disposed of.

12 MR. MCCLURE: Okay, I think for now, I'm going to
13 defer to my colleagues. I would just note, on Friday
14 when I was coming down in the elevator, we have this
15 wonderful little screen captiva that gives you
16 advertisements and news. One news item was about a
17 \$50,000 bid from Leggett & Platt that apparently if
18 you're not breathing hard enough, it will call 911. So I
19 guess the message is you can never escape from this
20 investigation.

21 MR. DAVIS: I can assure you it's strictly a
22 concept car.

23 MR. CARPENTER: We'll turn next to Patrick
24 Gallagher, the Commission's attorney/advisor.

25 MR. GALLAGHER: Patrick Gallagher from the General

1 Counsel's Office. I have to confess that I have great
2 ignorance of something I spend at least eight hours a day
3 with, so -- my questions go mainly to manufacturing
4 process. Well, let's do shipments first.

5 Mr. Salyer, you mentioned that the different
6 countries tend to ship to different parts of the United
7 States, their imports come in different parts of the
8 United States. Is that related to the product, to the
9 customers, to happenstance? I mean, how does that --

10 MR. SALYER: It's primarily just customer driven,
11 and then also some of it's the cost of inland freight, as
12 far as concerning the ports that they come into.
13 Obviously, it's cheaper in some cases to bring it into a
14 local port and not put it on inland freight, but it's a
15 lot based on the customer, who they've made contact with,
16 who they've done business with through the years.

17 MR. GALLAGHER: Okay. With respect to --

18 MR. BAISBURD: Mr. Gallagher, if I could add
19 something, you'll see from the official Customs data that
20 the imports from China, for example, come in on ports on
21 the West Coast, East Coast and through the Gulf, and as
22 Mr. Salyer had testified earlier, that their competition,
23 you see Chinese and subject imports throughout the United
24 States. So even though, for example, the Chinese imports
25 might not be coming in through some of the Midwest ports,

1 they are in fact being sold to Midwest mattress
2 manufacturers, as with South African and Vietnamese
3 products as well.

4 MR. GALLAGHER: Mr. Bush mentioned that there were
5 different sizes of coils. What I'm trying to get at is,
6 somewhere in the production process, there has to be a
7 split between pocketed and unpocketed. Are all the coils
8 the same that you're using in pocketed and unpocketed if
9 they are the same size, or do you have separate
10 production lines where you are bringing -- you make coils
11 for pocketed and coils for unpocketed?

12 MR. BUSH: The coils have different features.
13 Generally, you can see the examples that Leggett brought
14 over here. The pocketed unit is generally an unknotted
15 coil, and it's attached with an adhesive once it's sewn
16 into the pocket. The coil you're seeing on the other
17 unit, that is a Bonnell unit. That is the more or less
18 generic unit being offered on the market today. It has a
19 knot on each end and is sewn together with a wire
20 helical.

21 Now, the size of that coil and the number of coils
22 in a full size, a double size innerspring unit, gives it
23 a name. When we in the industry talk about a 312, we're
24 talking about 312 coils in a full sized unit. Other coil
25 series would be a 364, 336, 510, there are numerous

1 different ones, and that is all determined by the top of
2 the coil and how many you can get into a full size.

3 A 312 queen is going to have 390 coils, not 312,
4 but it is still based on the 312 full size.

5 MR. GALLAGHER: All the coils are the same size?

6 MR. BUSH: But all the -- yes, every coil in that
7 unit, especially in the Bonnell, will be identical.

8 MR. GALLAGHER: And what about across products?

9 MR. BUSH: Across?

10 MR. GALLAGHER: Do you make different sized coils
11 depending on what your end product is?

12 MR. BUSH: Yes. The coil in a 312 will not be the
13 same size as the coil in a 510.

14 MR. GALLAGHER: Okay, and what about pocketed
15 versus unpocketed?

16 MR. BUSH: The same difference. The number of
17 coils in a full size determines a series number. So in
18 order to make a 660-coil pocketed unit, the coil has to
19 be a lot smaller than if you're making a 528.

20 MR. GALLAGHER: Now, when you're making pocketed
21 coils, or coils that will eventually be pocketed --

22 MR. BUSH: Right.

23 MR. GALLAGHER: Is it the same machinery, the same
24 production process, or is --

25 MR. RYAN: Some of the particulars on this might

1 be business confidential, so we may be able to answer
2 more in our post-conference brief, but say what you can
3 here.

4 MR. GALLAGHER: Okay, that's fine.

5 MR. BUSH: This is not. The basic coiling
6 mechanism is the same, yes. The shape of the coil is
7 determined by things you can vary within that machine, up
8 until it comes to whether it's going to be knotted or
9 unknotted. On the pocketed coil machine, you have a
10 mechanism that actually takes that coil and inserts it
11 into the pocket right then and there, and then rows of
12 these pockets are then grouped together and glued to the
13 size of the unit, whereas the Bonnell innerspring, the
14 coils are going to be individualized and inserted into an
15 assembly machine, either by hand or automatically, and
16 then sewn together with the helical.

17 Up until that point, the equipment is very
18 similar.

19 MR. RYAN: I think in our post-conference brief,
20 we may actually be able to add some more detail about
21 Hickory Springs' particular production facilities and how
22 they produce these various items, and I think that will
23 be helpful for your --

24 MR. GALLAGHER: Okay, and the difference between
25 pocketed and unpocketed?

1 MR. BUSH: Yes.

2 MR. RYAN: Exactly.

3 MR. GALLAGHER: The only other question I had was,
4 Ms. Watson, you mentioned that it's not cost-effective to
5 just ship coils, and they compress them, is that what I
6 heard you say?

7 MS. WATSON: When they ship an innerspring unit to
8 the US, what they'll take is 10 to 12 of those units, put
9 them in a machine and compress them, with sort of wooden
10 what we call ladders on the outside and then steel
11 strapping, and those compressed packages of units go into
12 a container. Mattress supports or box springs have a
13 wooden frame around them, if you think about the box
14 spring --

15 MR. GALLAGHER: Sure.

16 MS. WATSON: -- under your bed, it's rigid and it
17 cannot be compressed. So you are going to have, if you
18 ship mattress supports in a container, you're going to
19 have a lot of air, rather than a lot of units.

20 MR. GALLAGHER: Thank you.

21 MR. BUSH: Mr. Gallagher, if I could offer
22 something here, to ship a 40-foot container with
23 uncompressed innersprings in it, would hold about 150 to
24 160 pieces. By compressing them into the bales that Ms.
25 Watson is talking about, we can get somewhere around

1 1,000 pieces in the container.

2 MR. GALLAGHER: All the coils are made of roughly
3 the same metal, like a rod or something?

4 MR. DAVIS: The material we use comes almost
5 exclusively from recycled scrap. I would say in excess
6 of 98 percent of our consumption is from a recycled steel
7 scrap.

8 MR. GALLAGHER: And there's no difference, for
9 instance, there's no other materials that are used to
10 make these coils?

11 MR. DAVIS: There are ranges that we use, some of
12 it is proprietary to what we do and we can certainly
13 discuss, but there are ranges of tensile and carbon
14 content in the wire that we use to make different
15 products.

16 MR. GALLAGHER: But they are all metal?

17 MR. DAVIS: They are all metal.

18 MR. BUSH: But generally they are classified as
19 AC&K, which is automatic coiling and knotting grade wire.

20 MR. GALLAGHER: Thank you.

21 MR. CARPENTER: Kelly Clark, economist?

22 MS. CLARK: Good morning. I'm Kelly Clark from
23 the Office of Economics. I'd like to stay with this
24 pocketed versus non-pocketed. I don't think that I have
25 seen any data, but I was wondering, how big is the market

1 size for the pocketed versus the non-pocketed in the US?

2 MR. SALYER: In the US, including the captive --

3 MS. CLARK: Yes.

4 MR. SALYER: -- producer, which is Simmons?

5 MS. CLARK: Yes.

6 MR. SALYER: We believe it's around 10 to 12
7 percent of it overall. The 20 to 21 million innerspring
8 mattresses that they account -- the pocketed accounts for
9 about 10 to 12 percent of that total.

10 MS. CLARK: Okay, and Mr. Salyer, if I could stay
11 with you, you've touched on some things, but I'd like to
12 see if you can discuss them a little further. I think
13 you and Mr. Bush mentioned about price change
14 announcements, and you did give some dates of when you
15 made price increase announcements, but I just wanted to
16 discuss generally, how often do you make these
17 announcements, are they always predicated just on raw
18 material cost increases, and what sort of advance notice
19 do you generally give?

20 MR. SALYER: Do you want me to cover my 25 years,
21 roughly?

22 MS. CLARK: No, just the period of investigation,
23 since 2004.

24 MR. SALYER: Just my -- the period of
25 investigation. Basically, they've always been made, in

1 my experience, and especially in the period of
2 investigation, based on raw material costs. That's what
3 drives it. Steel, obviously, is the major component in
4 the product, so we've reacted to the raw material costs
5 when they go up. There was a tremendous run-up in 2004
6 of raw material, of steel, and there were several price
7 increases that we had passed through to the industry to
8 try to recover those costs.

9 Since then, and I think the last one was August of
10 '04, we've had one increase since then, which was April
11 of 2007, and obviously, as I stated in my testimony, we
12 certainly didn't recover material costs in that increase,
13 because we literally lost business to the imports.

14 MS. CLARK: And what sort of advance notice do you
15 give to your customers?

16 MR. SALYER: Typically, anywhere from six weeks, a
17 couple of months, something in that neighborhood.

18 MS. CLARK: Okay. And --

19 MR. SALYER: Just one other thing. We typically
20 take those cost increases almost immediately. That's how
21 the rod and wire market works. They pass them along
22 immediately too.

23 MS. CLARK: And Mr. Bush, you touched on it
24 briefly, but can I get the same question for you?

25 MR. BUSH: As far as getting price increases

1 through, we are not the market leader. As I said in my
2 statement here, Leggett & Platt, because of their market
3 share, has been. If they have taken material increases,
4 we've taken at least as much if not more. So we
5 generally try to push through a price increase basically
6 about the time they do, but both of us have had raw
7 material increases up front.

8 We generally give at least a 30-day notice on our
9 price increases, and as I have said in our brief here, we
10 announced in early December, I think it was December 7,
11 that we would have a price increase on January 7, and as
12 of today, we still have not gotten any prices increased.

13 MS. CLARK: And was that your only price increase
14 in 2007, or were there others earlier in the year?

15 MR. BUSH: I think we had one back in April also.

16 MS. CLARK: Okay.

17 MR. BUSH: April to May area, somewhere in there.

18 MS. CLARK: Mr. Salyer, back to you. You touched
19 on how there are market participants who manufacture
20 innersprings for their own use, and just in general, can
21 you give me a sense of how their purchasing pattern from
22 both Leggett and Hickory has changed since 2004? Have
23 they decreased their purchases and bought more imports or
24 made more of their own, or can you just give me an idea
25 of that trend?

1 MR. SALYER: With the captive producers such as
2 Sealy, Simmons, and so forth?

3 MS. CLARK: Correct, yes.

4 MR. SALYER: Without going into great detail,
5 which I guess we can go into more information as far as
6 the post-briefs on individual, we are aware that one of
7 the manufacturers, as I have said in my testimony, had
8 actually decreased their production and bought subject
9 imports. They found it, obviously, more cost-effective
10 for them to do that.

11 MR. RYAN: Mr. Bush, I think, had a follow-up
12 point on that one as well, on the rolled imports and
13 price announcements.

14 MR. BUSH: Just to reiterate from the statement I
15 made earlier, it used to be that Leggett led all price
16 increases or whatever, as a market leader, and today
17 that's no longer the case. They can't move any more than
18 we can in order to pass these raw material increases
19 along.

20 MS. CLARK: Okay.

21 MR. DAVIS: Ms. Clark, the maker-users primarily
22 look at our company as a fill-in source when they are
23 unable to produce their requirements, so if they would
24 have a spike in business or something would happen
25 internally that would cause a production problem, that's

1 generally when we would see some of that business coming
2 our way.

3 MS. CLARK: Okay, and the maker-users, their
4 production process is, I'm assuming, very similar to
5 yours and Hickory's?

6 MR. DAVIS: It's similar, yes.

7 MS. CLARK: Okay. I'd like to talk a little bit
8 about the importance in terms of the generic versus
9 proprietary designs for innersprings, because I believe
10 in her opening statement, Ms. Mendoza mentioned that
11 imports typically don't compete with proprietary designs,
12 and I wanted to get your take on that, in terms of what
13 you've seen out there in the market.

14 MR. DAVIS: I would argue just the opposite.
15 Imports do compete with proprietary designs, and I
16 believe the questionnaires that we have presented will
17 evidence that. What has happened over the last four to
18 five years is there have been significant run-ups in
19 cost, not only of steel, but practically, the fabric on
20 that unit, plastics, shipping, foam within the last two
21 years is probably up almost 100 percent in total.

22 So there have been significant cost pressures on
23 U.S. mattress manufacturers and consequently on
24 innerspring providers, but what has happened during that
25 period of time is that a product sold at a particular

1 price point, say five years ago, say it's a 799 mattress
2 at retail, you go to buy that 799 mattress today, that
3 price point still exists, you will not buy near the
4 quality of product today that you bought then, because
5 there has been significant decontenting or despecing, as
6 we call it internally, of that product, where they have
7 substituted a lower-cost alternative for a higher-cost
8 alternative that possibly had other features, and that's
9 where the rub comes in when it comes to innerspring.

10 Yes, we do provide, and have been innovative, at
11 least from Leggett & Platt's perspective, over the years
12 to try to differentiate products within the market.
13 However, with this despecing or decontenting that we see
14 that's rampant throughout the industry, we now find that
15 those products that we have worked hard to make
16 proprietary compete directly against imported, more
17 commoditized product.

18 MS. CLARK: Okay, and Mr. Baisburd, this might be
19 a question for you, but in terms of the six pricing
20 products that we have included in the questionnaires,
21 within those pricing products, is there a mix of generic
22 and proprietary and pocketed and non-pocketed, or are we
23 looking at one specific type?

24 MR. BAISBURD: Mr. Salyer can speak to this more
25 specifically, but the pricing products are general

1 descriptions in the sense that they don't identify the
2 coil type, and so it would cover both, in the sense --
3 well, let me take a step back. Those are meant to cover
4 what we think are the important volumes of imports, and
5 unless they are violating our intellectual property,
6 imports cannot be importing proprietary springs because
7 they are subject to patents.

8 So we would think that those pricing products
9 cover what are non-proprietary springs, and maybe Mr.
10 Salyer would like to just --

11 MR. SALYER: Yes, some of the proprietary, like
12 the LuraFlex unit, LFK, which Jimmy Bush, Hickory
13 Springs, manufactures a similar product that's called
14 InnerACT, typically those coil counts will start in the
15 low 500s, as Jimmy explained earlier, for a standard full
16 size mattress, and then go on up into the high 600s.
17 Those units, which have been -- at one time they were a
18 protected product. I don't think they are anymore;
19 they're not patented.

20 But what we've seen in the industry in the imports
21 is similar coil count in the Bonnell type coil with a
22 knotted coil, which typically has more wire even in the
23 unit, and they're still coming in at a lower cost. The
24 prices are still depressed, they are still low.

25 MS. CLARK: Okay, thank you.

1 MR. SALYER: You're welcome. Thank you.

2 MS. CLARK: Getting more to the conditions of the
3 competition side, the questionnaire responses that I have
4 reviewed so far seem to present a mixed bag in terms of
5 the demand trend since 2004 for innerspring mattresses,
6 and I wanted to ask, is the ISPA data the best source of
7 information for demand for innersprings in the US, or is
8 there some other data that we should be looking at that's
9 public?

10 MR. DAVIS: As to public data, the ISPA reports
11 would be the authoritative source.

12 MS. CLARK: And can you just explain what that
13 data has shown since 2004?

14 MR. DAVIS: It has shown moderate overall growth
15 in the industry. Last year, I believe, showed a slight
16 decline.

17 MR. SALYER: Yes, about a --

18 MR. DAVIS: One and a half percent.

19 MR. SALYER: -- one and a half percent decline,
20 yes.

21 MR. DAVIS: The year-end report will come out
22 generally in March, April, somewhere along in there, so
23 we'll know at the end of '07. We believe currently the
24 pieces volume is down, and down significantly.

25 MS. CLARK: If you do have even preliminary

1 estimates for the '07 data, if you could submit them
2 post-conference, we would appreciate that, because what
3 we have from the petition didn't cover 2007.

4 MR. BAISBURD: Just if I can clarify, in the
5 petition, ISPA produces two reports, an annual report
6 that covers the full year, and then what they call the
7 Bedding Barometer, which is more of a Census-type report,
8 and we did submit in the petition through -- the Bedding
9 Barometer that covers the interim period, which is the
10 first three quarters of 2007, and what we'd be happy to
11 do in our post-conference submission is to update that,
12 to give you any additional Bedding Barometers that have
13 been published since the petition went in.

14 MS. CLARK: Great. Thank you. Are there any
15 differences in quality between the US-produced
16 innersprings and those imported from the three subject
17 countries? I know that you had said, I'm not sure who,
18 but that there was a high degree of interchangeability,
19 but in terms of quality, are they any different from U.S.
20 springs?

21 MR. BUSH: Yes, ma'am, I believe they are. Size
22 is a very critical issue, and if you have too large an
23 innerspring or too small an innerspring, you cannot make
24 a properly upholstered mattress. Knot tightness for the
25 Bonnell-type units is a quality issue. If the knots

1 slip, the units can grow or shrink and cause problems
2 after they are upholstered. These things, the barrel
3 size, the center diameter of the barrel, helps determine
4 the firmness of the innerspring.

5 The bigger the barrel, the a lot easier it is to
6 bale and thread like we talked about for shipping, but it
7 also makes the unit softer. These are all issues that I
8 know my company has confronted over the years, quality
9 issues with customers, and I'm sure Leggett has also, but
10 these things seem to go away at 25, 30 percent less than
11 market value.

12 MS. CLARK: Okay. Has there been any sort of
13 quality testing in terms of mattresses made with imports
14 versus those made with U.S. innersprings, in terms of
15 your companies or your customers, that you know of?

16 MR. BUSH: We've done some informal testing. We
17 don't have any reports or anything like that, but just
18 bring them in and put the measurements to them, get the
19 dimensions and the knot tightness and inside the barrels
20 and stuff, and find them substandard to ours.

21 MR. DAVIS: We have a test facility where we do
22 ASTM standard testing procedures, and we do that on both
23 the componentry and finished product. We have the
24 ability to make a finished mattress in-house for testing
25 purposes, but normally we're just looking at componentry.

1 I would say that early on in the importation process,
2 there were significant quality problems. As the Chinese,
3 the Vietnamese and the South Africans have learned what
4 the U.S. market demands, their overall quality of the
5 product that we see coming in has improved.

6 MR. RYAN: I think with regard to Mr. Bush's
7 point, I think these issues are sometimes an issue, you
8 know, in comparison of Hickory Springs' product versus an
9 imported product, but as Mr. Bush mentioned, you're not
10 going to be able to sell your product on a quality basis
11 if there is any significant price difference. So
12 although Hickory Springs of course will -- markets the
13 highest quality product it can, with a significant price
14 difference, that's really not going to be overcome by a
15 higher quality product.

16 MS. CLARK: And I'm sorry I'm jumping around a
17 little bit, but there has been from the ISP report that
18 you submitted in the petition, there has been a
19 significant increase in imports of finished mattresses
20 from China as well, and I wanted to see how that has
21 affected the U.S. innerspring market since 2004, if at
22 all.

23 MR. DAVIS: We have a little bit of the same issue
24 we have on innersprings, I believe, there. I believe
25 there is some nonspecific classification of finished

1 mattresses. We've seen everything from small pieces of
2 foam that are used as mattresses for people that go
3 camping to full-fledged residential furnishings mattress
4 being classified under the same HTS codes.

5 A lot of the finished mattresses that you see
6 being imported, I believe, are of foam, all foam, and
7 sometimes even a foam core that is shipped to the U.S.
8 that is uncovered will get classified as a finished
9 mattress. So, again, we've seen problems with HTS coding
10 in finished mattresses. My personal feeling is that for
11 the standard, residential market on innerspring bedding,
12 it is not at this point a significant portion of what's
13 sold as a percent of the overall.

14 MS. CLARK: Okay. I have a couple of questions
15 left, specifically for Leggett & Platt. Does your
16 company manufacture innerspring products that only
17 certain customers can buy?

18 MR. DAVIS: Yes. We have a long history of going
19 to different customers or customer groups and providing
20 them with proprietary characteristics or designs which
21 will hopefully allow them to differentiate themselves in
22 the marketplace and be able to sell their products at a
23 differentiated price and quality. As I said earlier, the
24 delta between proprietary and the products that we are
25 competing against that are the subject imports, there has

1 been a change in that dynamic where, because of cost
2 pressures, customers have either de-emphasized or totally
3 abandoned some of the proprietary offerings that we have
4 had.

5 MS. CLARK: And is this a price issue, or is it
6 size of the order, or how do you determine who can buy
7 the specific proprietary design?

8 MR. DAVIS: That's a business decision that we
9 could really address better probably in the post-brief.

10 MS. CLARK: That's fine.

11 And I think I'm done for now. Thank you.

12 MR. CARPENTER: David Boyland?

13 MR. BOYLAND: Good morning. Thank you for your
14 testimony. I have a couple of questions. In the
15 petition, the financial results of Atlas were included as
16 an exhibit, and in the form that they were submitted, I
17 don't believe I can use them directly, so I guess the
18 question is, is Leggett & Platt going to submit on behalf
19 of or for Atlas those financial results?

20 MR. BAISBURD: Atlas no longer exists. They went
21 out of business in 2006. What they had available, which
22 is what we provided in the petition, and so they did not
23 have, unfortunately, the ability to respond to a U.S.
24 producer questionnaire in the form that the Commission
25 would need to have usable data for all of the factors

1 that the Commission considers. So we submitted the best
2 information we had, which is, as you know, is the exhibit
3 to the petition.

4 MR. BOYLAND: The question was mainly just, I
5 wasn't sure what the expectation was, if Leggett & Platt
6 was assuming I was going to include those directly as a -
7 - but I think what you're saying is no, they were mainly
8 for informational purposes, not to be included directly.
9 Is that correct?

10 MR. BAISBURD: Yes, they are the best information
11 that Petitioner had as to the financial condition of a
12 U.S. producer that went out of business during the POI
13 because of low-priced imports, so recognizing that you
14 probably can't fold all of that information into the
15 aggregate data that the staff will compile for the
16 Commission's consideration, the fact remains that the
17 third largest innerspring producer for the merchant
18 market went out of business during the POI, and we have
19 some data, it's the best data we have, as to what their
20 financial condition was at the time that they went out of
21 business.

22 So I think the staff will do what it can with that
23 information.

24 MR. BOYLAND: Thank you. I guess the other
25 question with respect to Atlas was, the testimony

1 indicated that, I believe, most of the assets were
2 actually -- are in storage or have been disposed of, so
3 they are not currently being used in production. Is that
4 correct?

5 MR. DAVIS: That is correct.

6 MR. BOYLAND: The next question was, if that's the
7 case, buying Atlas, was it for distribution purposes?
8 What was the main reason?

9 MR. DAVIS: There are a couple of components
10 there. One, they did a significant amount of furniture
11 business on the West Coast which we've done our best to
12 retain and continue to service. The second part of that
13 is, we are global in nature. As I said in my opening
14 comments, with regards to innerspring production, we, at
15 any one time, have a significant amount of off-line
16 machinery that we will send to -- if we were to decide
17 all of a sudden that Argentina is where we wanted to be,
18 those assets would get utilized there.

19 MR. BOYLAND: Mr. Bush, I believe the testimony
20 Mr. Salyer gave was that the majority of their costs are
21 variable, in terms of manufacturing costs. Is that
22 correct for Hickory?

23 MR. BUSH: Yes, sir.

24 MR. BOYLAND: Now, you also mentioned that you
25 have wire drawing operations.

1 MR. BUSH: Yes, sir, we do.

2 MR. BOYLAND: Are those a separate division within
3 the company, or is it literally part of the facility
4 where --

5 MR. BUSH: No, it's located in Hickory, North
6 Carolina, which is -- the closest of our innerspring
7 plants to it is 75 miles away.

8 MR. BOYLAND: Are those wire operations treated as
9 a separate profit center?

10 MR. BUSH: Yes.

11 MR. BOYLAND: Okay. I have no other questions.
12 Thank you.

13 MR. CARPENTER: Queena Fan, industry analyst?

14 MS. FAN: Hi, this is Queena Fan from the Office
15 of Industries. Thank you all for your testimony today
16 and the information in your petition. My questions are
17 going to be geared primarily towards the physical
18 properties of the innerspring units and also the
19 manufacturing process. I was wondering if you can review
20 our 421 report that we did several years ago.

21 Could you also, could you look at the physical
22 properties in the report, and could you also provide any
23 additional or supplemental information in a post-
24 conference submission? Any diagrams, pictures of the
25 products would be very helpful.

1 MR. BAISBURD: We'd be happy to do that.

2 MS. FAN: Thank you, and in addition, can you also
3 please provide or expand a description on the different
4 types of innerspring units? For example, are there any
5 advantages, disadvantages to the different types? So
6 that's another thing, if you could provide to that. In
7 your testimony, you also indicated that you believe that
8 the majority of the innerspring units coming in are
9 Bonnell coils.

10 I was wondering, what is the case for the U.S.
11 production? Does U.S. production mainly consist of
12 Bonnell coils or is it leaning towards proprietary, or
13 what's the case?

14 MR. DAVIS: I can't give you a specific over all
15 the industry. I can give you a guess that Bonnells are
16 still by far the predominant innerspring used in the
17 production of innerspring mattresses, and by 'by far,'
18 what I mean by that is, if you won't hold me exactly to
19 it, I think it's probably around three-quarters of those
20 that are produced probably still use a Bonnell-type coil.

21 MR. BUSH: The estimations we make are in that
22 same ballpark.

23 MS. FAN: Thank you. And just out of my own
24 personal curiosity, is there a specific reason why
25 Bonnells are the majority of the imports and also a good

1 chunk of the U.S. production, or --

2 MR. BUSH: They are generally the lowest priced,
3 and like a lot of goods sold in the United States, the
4 market share tends to congregate at the bottom, and as
5 you move up in quality and price, you get a smaller
6 market share.

7 MS. FAN: Okay. Let me see now. Also, regarding
8 the manufacturing process, could you also provide any
9 additional information and also look at what we have in
10 the 421 case to see if there's any updates or any other
11 information that you believe would be helpful for our
12 report, if possible?

13 Let me see. I was wondering, it seems that, I'm
14 under the impression that it's different types of
15 machines, equipment used to produce the pocketed versus
16 the non-pocketed. Is that correct?

17 MR. DAVIS: It is dedicated equipment by product
18 category.

19 MS. FAN: By product category. So for instance --

20 MR. RYAN: Well, with regard to Hickory Springs'
21 particular production process, as I mentioned to Mr.
22 Gallagher before, I think we are going to add some
23 additional detail in our post-conference brief on a
24 confidential basis.

25 MS. FAN: Greatly appreciate it. And also, yes,

1 just a little bit about the non-pocketed. Can you use
2 the same equipment to make the Bonnells versus the offset
3 versus the continuous, or do you need dedicated equipment
4 for each different type? If you'd like to include it in
5 the post-hearing submission --

6 MR. DAVIS: I'll speak for Leggett & Platt. It's
7 dedicated equipment for each product.

8 MS. FAN: For each product.

9 MR. BUSH: That goes the same for Hickory Springs.

10 MS. FAN: Okay, and switching a little bit to the
11 employees, can the same employees make the non-pocketed
12 versus pocketed, or is there special training that is
13 used for either one?

14 MR. SALYER: From Leggett's side, yes, there is
15 special training that each require. The machines are a
16 little bit different, so there is a learning curve for
17 each of them.

18 MS. FAN: For each of them? Do you typically use
19 the same set of employees, for instance, employee group
20 A, if one day they are making the Bonnell coil
21 innerspring units and then two months later, can they
22 jump to the non-pocketed, or is it just dedicated sets?

23 MR. SALYER: They can. I mean, it's not a simple
24 process that we can put them in there the next day and
25 they are going to be able to run that equipment, but you

1 know, in a pinch or something like that, or if they do
2 have the opportunity within the facilities to bid out of
3 one particular area and bid into another one, and then
4 they would have to learn the new equipment.

5 MR. BUSH: Ms. Fan, we do have one plant where we
6 run pocketed and non-pocketed in the same operation, and
7 we do have a number of employees cross-trained where we
8 can switch the same employees from department to the
9 other as demand necessitates.

10 MS. FAN: Okay, great. Thank you. And can I ask,
11 does it take longer to make the non-pocketed or the
12 pocketed version? Is the production time frame the same,
13 or is there a different time frame?

14 MR. DAVIS: The machinery runs similar speeds.

15 MS. FAN: Okay.

16 MR. DAVIS: In terms of, we measure things in
17 terms of coils per minute. Generally, of course, if you
18 have a higher coil count -- Jimmy was talking about a 312
19 -- if you go and you run a 660, it's just going to take
20 proportionally longer to assemble that bed.

21 MS. FAN: I'd like to also repeat Mr. Gallagher's
22 request on any additional information you can provide
23 regarding the pocketed innerspring units, the physical
24 characteristics, the manufacturing process, any
25 additional information you could provide on that would be

1 greatly appreciated. And switching to a little bit on
2 labor, I keep on getting the impression that you say that
3 Chinese are more labor-intensive than U.S. producers.

4 I am wondering, what is the case for Vietnam and
5 also South Africa? Is that also the case?

6 MR. SALYER: Vietnam, yes, we believe there is.
7 South Africa is probably, from our experience, because we
8 have a facility in South Africa, they are a little bit
9 more automated than Vietnam and China will be.

10 MS. FAN: Okay, great. I think that's all of my
11 questions. Thank you very much.

12 MR. CARPENTER: A couple of additional questions.
13 Mr. Davis, you indicated that you've had to consolidate
14 and reduce a number of your manufacturing plants from
15 nine to six. Have you always had a large number of
16 manufacturing plants?

17 MR. DAVIS: We've had more in the spring business
18 than anybody else. We've been the largest manufacturer
19 of innersprings for a number of years. Yes, we had
20 positioned geographically going way back, outside of the
21 POI, even other facilities, West Coast facilities, but
22 we've always adjusted, moved, closed down, opened,
23 according to what the market conditions dictate, and to
24 make sure that we are properly positioned from a
25 geographic and a cost standpoint to the greatest

1 advantage we can.

2 However, during the period of the POI, we have had
3 to make adjustments based on volume, not on positioning,
4 and as we have seen our volumes and our margins erode, we
5 have obviously had to react, and one of the most
6 effective ways to react in that environment is to cut
7 your overhead to remain profitable, and so with the loss
8 of volume, margins, overhead coverage, you have no choice
9 but to reduce your footprint.

10 MR. CARPENTER: Yes, that's what I was getting at.
11 Is it true that you tend to locate your manufacturing
12 plants close to the manufacturing facilities for
13 mattresses, or is it the geographical areas where the
14 mattresses tend to be sold?

15 MR. DAVIS: It tends to be, as we also said, we've
16 had a number over the years of smaller what we call
17 satellite locations. Those are locations that don't
18 manufacture necessarily innersprings, but they warehouse,
19 distribute, sell that product. We have -- one of
20 Leggett's advantages over the years, we had felt, had
21 been the ability to be close to our customers from a
22 geographic or service standpoint.

23 This business is a just-in-time business from our
24 customers' perspective, by and large, and for their
25 customers. In other words, they don't sit on a lot of

1 working capital in the form of raw material. It's in and
2 out. So being able to service and be close by has been
3 an advantage, we feel, for us in the past. We've, in a
4 lot of cases, lost that advantage as the tradeoff between
5 being able to service regularly, daily, just in time, a
6 variety of products, has become less meaningful to our
7 customers because of the wide disparity in the import
8 innerspring pricing.

9 In other words, we no longer get paid for that.

10 MR. CARPENTER: Okay. In your decision to
11 consolidate from nine plants down to six -- this may be
12 more of a question for the briefs, but if you could tell
13 us what factors went into the decision specifically to
14 close the three plants that were closed. How much of it
15 had to do with, say, the efficiency cost factors involved
16 at those plants as opposed to being located close to your
17 customers and to the delivery advantages that might be
18 provided?

19 MR. DAVIS: Yes, we'd be happy to cover that in
20 the brief.

21 MR. CARPENTER: And also in doing that, could you
22 address the question as to whether you shifted production
23 and/or employees from some of the plants that were closed
24 to the plants that remained, and to what extent you did
25 that?

1 MR. DAVIS: Yes, sir.

2 MR. CARPENTER: Thank you. Mr. Davis also, you
3 indicated that demand in this industry is closely tied to
4 the housing market, and I was wondering if -- obviously,
5 the housing market is down, at least in the last year. I
6 was wondering if you could elaborate a little bit more on
7 that. For example, I could certainly see that that would
8 be the case, but at the same time, can you tell us, have
9 you done any studies, or do you have any sense as to how
10 often consumers would switch and purchase a new mattress,
11 and is that more of a cyclical thing or would that be --
12 you know, it would seem to me, intuitively, that housing
13 would be a factor, but it might be a small factor in
14 terms of overall demand for innerspring units.

15 MR. DAVIS: The replacement cycle, I think we
16 mostly agree, is somewhere in the area of 8 to 10 years.
17 Over the last few years, people are building bigger homes
18 with more bedrooms, utilizing more bedding. There are a
19 number of people that have been able to purchase second
20 homes, again utilizing more bedding. So those things all
21 play into the demand side of it, but when houses aren't
22 selling and furniture isn't selling, bedding isn't
23 selling, generally.

24 MR. CARPENTER: That's very helpful, thanks. Just
25 if, hypothetically, if there were to be an argument that

1 your downturn in sales was due more to the downturn in
2 the housing market as opposed to imports, how would you
3 respond to that argument?

4 MR. DAVIS: My response would center around the
5 accepted industry numbers, what we have seen internally
6 in terms of growth, or negative growth, and how that
7 relates to the overall industry, and then also, again,
8 the significant mix, what I would call a mix change,
9 which is migration away from what used to be proprietary
10 product from us to more commoditized-type low-cost
11 offerings.

12 MR. CARPENTER: Okay.

13 MR. BAISBURD: If I could elaborate a little bit
14 on what Perry was saying, if you look at the ISPA
15 numbers, which are independent numbers, are the industry
16 standard for what demand is, you will see that from the
17 POI, demand has increased modestly, maybe is a little
18 soft in the last year, but that nowhere accounts for the
19 drop that you'll see in the questionnaire responses for
20 units producers for their shipments and their production
21 and their capacity and all of those factors.

22 So while, intuitively, we've heard for a while now
23 about the housing market and it being soft and, you know,
24 the sub-prime mess and all of that, that issue is going
25 to be a bigger issue going forward than what was felt

1 during the POI, and so at a time of flat to modestly
2 increasing demand in the U.S. market for innerspring
3 mattresses, you wouldn't expect the economic indicators
4 of the U.S. industry to perform the way they have.

5 MR. CORR: And equally you see increasing imports
6 coming in to explain that downward trend.

7 MR. CARPENTER: Just to follow up on that, is it
8 your belief based on the numbers that you've seen, your
9 market intelligence, that overall demand in the industry
10 has been increasing gradually even in 2007? Or is it
11 flat in 2007 or declining?

12 MR. BAISBURD: I would say referring back to the
13 vetting barometer that I mentioned earlier, at least the
14 vetting barometer through the first three quarters of
15 2007 showed I believe it's either a one or two percent
16 increase year over year, from 2006 to 2007. That's the
17 publicly available dataset that is the industry standard
18 that we can point to.

19 The one thing I would say, and caution all of us,
20 is as we calculate as the staff will consumption in the
21 United States, we're going to have to factor in the
22 misclassification issue. The real level of imports, I
23 don't think there's any question, is significantly higher
24 than what shows up in the official import statistics. So
25 it will be, we'll have to be careful how we calculate

1 apparent domestic consumption when we're looking at
2 demand at the prelim because we're going to have to
3 factor in for the real level of imports, not the level
4 that shows up in the official statistics.

5 MR. CARPENTER: Thank you.

6 Another question, Mr. Davis, just to follow up on
7 Kelly Clark's question about imports of finished
8 mattresses containing box springs. I wasn't sure, and
9 any others on the panel who wish to comment on this. Is
10 it your belief that there have been increased imports of
11 mattresses containing box springs? Mr. Davis, you
12 alluded to the problem with the import statistics that
13 they include other products like strictly foam mattresses
14 and so on.

15 MR. DAVIS: You're drawing a distinction between
16 innerspring mattresses and box springs. I don't believe,
17 there are very few box springs that are imported into
18 this country as a fully assembled box spring. As Wendy
19 said, there's no way to package that. You ship a lot of
20 air. Consequently it drives the costs up to do that.

21 Innersprings are compressible by a factor of eight
22 to ten you can get in the space of one on a container, so
23 it does make it more cost effective, or the freight per
24 piece drops dramatically.

25 Are there more mattresses coming in, finished

1 mattresses today than there were five years ago? Yes, I
2 believe there are.

3 We do not have good data. We have asked our
4 industry trade association, which is ISPA, to try to look
5 into that and develop numbers. They've not shown
6 significant interest in doing that to this point.

7 MR. CARPENTER: Do you think it would be possible
8 for you to come up with estimates for your post-
9 conference brief? Or would you say at this point the
10 data are just not available within the timeframe that
11 we're looking at?

12 MR. BAISBURD: I would say at this stage that in
13 order to give you numbers we thought were meaningful and
14 really useful for the Commission, that we couldn't get it
15 done by Friday.

16 I'll just say this, the ISPA numbers are, if you
17 had a significant increase in finished mattresses being
18 imported into the United States, you would expect to see
19 that translated in the ISPA numbers, and for now you
20 don't.

21 Now I don't know, I can't tell you whether the
22 growth would have been even greater in finished mattress
23 shipments had there been less imports of finished
24 mattresses during the period, but what I can tell you is
25 that if you use the ISPA numbers as a benchmark, even if

1 finished mattresses are going up you wouldn't have
2 reduced performance of U.S. producers of innerspring
3 mattresses because the ISPA data is very specific. It's
4 tracking the U.S. shipments of U.S. innerspring mattress
5 manufacturers who manufacture in the U.S.. There's a
6 very strong correlation. Each innerspring mattress has
7 one innerspring unit.

8 So even if innerspring mattresses are, finished
9 innerspring mattresses are increasing, imports of them
10 are increasing over time, that wouldn't explain the drop
11 in performance of the U.S. innerspring producers.

12 MR. CARPENTER: Thank you.

13 Finally, just to return to the question of
14 misclassified imports, Ms. Watson, you had indicated that
15 obviously there are some people that are looking into
16 this issue pretty carefully. At some point you
17 mentioned something about having to look at individual
18 sales, invoices.

19 I wonder if anyone at your company has gone
20 through sales invoices, perhaps PIERS data, to look at
21 these other import categories to see what the
22 documentation is showing. For example for the products
23 where you said that under those categories it should be
24 individual springs that were being imported, have you
25 seen any evidence that they're actually describing the

1 product as complete innersprings, or --

2 MR. BAISBURD: If I can address that. The way
3 PIERS operate, many of us know, they basically sit over
4 the shoulder of U.S. Customs ports and are able to see
5 the bills of lading that are submitted on ocean cargo.
6 In the bill of lading description you see increasing
7 numbers where a product is described as spring of a kind
8 for mattress or mattress support.

9 That's parallel to the language in 7320 that Ms.
10 Watson referred to in her testimony, so that's the basis
11 that we know that people are claiming that imports that
12 they're importing are classifiable under 7320 because
13 none of these sources of data like PIERS or Zeppel or
14 others that gather this type of information have access
15 to the actual classification that's used by the importer
16 at the time of entry. Only Customs has that information.

17 But what you can deduce from the description in
18 the bill of lading is if somebody says uncovered
19 innerspring unit, they're probably classifying that in
20 940429, no issue there, they're doing it correctly. But
21 if they're saying that they're importing a spring of a
22 kind used for mattresses or mattress support, that's a
23 red flag.

24 It's like Ms. Watson testified, it is
25 inconceivable that U.S. manufacturers are importing

1 individual springs or even individual helical wires and
2 then assembling the units here in the States.

3 MR. CARPENTER: Where I'm going with this is, we
4 have this issue come up in a number of cases, and
5 sometimes what we can do is, or what the parties can do
6 is you can look through the documentation that is
7 available and you can see, for example, that the unit
8 values for these particular shipments are much lower or
9 much higher than they should be if they were subject
10 merchandise. You can make adjustments to the data based
11 on information like that.

12 So far from what I'm hearing that doesn't sound to
13 be the case, but what I'm wondering is, to follow on Mr.
14 McClure's question where he asked each of the parties to
15 come up with your best estimate as to what our subject
16 imports from the three subject countries and non-subject
17 countries for the product that we're looking at. If you
18 could also describe to us what the basis is for your
19 estimate.

20 MR. BAISBURD: Absolutely. We'd be happy to do
21 that.

22 MR. CARPENTER: That's all my questions. Mr.
23 McClure has a follow up.

24 MR. McCLURE: Following on what Mr. Carpenter just
25 read, I would ask that all of you look back at the

1 Section 421 report, and in particular Footnote 1 in Part
2 2. I'll quickly read it. This gets to the issue of
3 misclassification.

4 "The methodology for estimating U.S. imports is as
5 follows: A, imports from China are based first on data
6 compiled from responses to the Commission importers'
7 questionnaires comprising 96 percent of total U.S.
8 imports from China as adjusted. Supplemented, secondly,
9 by an estimate of under-reported imports of innersprings
10 from China entering under HTS Item 9404100000 based on a
11 per unit analysis of import entries and transaction with
12 an average unit value of \$8 to \$20 listed in Customs
13 data. Information provided in the petition that's in the
14 421 case, appendices I and M, and follow-up context with
15 identified importers. The resulting estimated imports
16 comprise four percent of total imports from China as
17 adjusted. And B, imports from non-subject sources were
18 compiled from official U.S. statistics for HTS
19 9404299010. There has been no allegation by any party
20 that imports of innersprings from non-subject sources
21 have been misclassified during the period of
22 investigation."

23 If you can sort of look at that as a starting
24 point. But that last sentence does bring up, am I
25 correct in my impression that when you speak of

1 misclassification you're talking specifically about
2 imports from China and not the other subject countries
3 and non-subjects?

4 MR. BAISBURD: No, that's not correct.

5 I want to be clear about one point. When we say
6 misclassification what we're saying is there are
7 innerspring units that are subject to this investigation
8 that are being classified outside of 940429. The right
9 provision for innerspring units.

10 Based on the information that Leggett & Platt has
11 looked at and compiled, there are innersprings from other
12 countries, from Vietnam and South Africa that are also
13 being classified outside of that 940429 provision. It's
14 not just an issue with the Chinese data.

15 MR. McCLURE: Thank you. That completes my
16 questioning.

17 MR. CARPENTER: Ms. Clark?

18 MR. CLARK: I'm sorry, I just have one more.

19 In terms of both Leggett & Platt and Hickory, do
20 you sell other products to customers who buy innersprings
21 from you? Machinery or any type of mattress assembly
22 equipment?

23 MR. DAVIS: Leggett & Platt is a very diversified
24 manufacturer for the home furnishings industry. We do
25 make quilting machines, we make sewing equipment, we make

1 a lot of machinery that you might find in a typical
2 bedding factory.

3 MR. CLARK: Are your sales of innersprings ever
4 bundled together with sales of these other products for
5 the customers for this investigation?

6 MR. DAVIS: No.

7 MR. CLARK: That's all I have. Thank you.

8 MR. CARPENTER: Thank you very much, pane, for
9 your responses to our questions. We really appreciate
10 that.

11 At this point we'll take about a ten minute break
12 to allow the other side to get ready for their
13 presentation.

14 (Whereupon, a brief recess was taken.)

15 MR. CARPENTER: Please begin whenever you're
16 ready.

17 MS. MENDOZA: Thank you, Mr. Carpenter. My name
18 is Julie Mendoza. I guess we've got about ten minutes
19 left of the morning, so good morning again.

20 I'm accompanied today by Don Cameron and Jeff
21 Grimson who are my partners. We represent the ad hoc
22 coalition of innerspring importers.

23 I'd like to introduce some members of the industry
24 who are here today. Kerry Tramel, President of Lady
25 Americana and the Chairman of the International Sleep

1 Products Association, ISPA, former, from mid-2006 to mid-
2 2007.

3 Richard Diamonstein, Executive Vice President of
4 Paramount Industries, part of the King Coil group of
5 companies which are now called Comfort Solutions and a
6 leading figure in ISPA.

7 Robert Enoch, who has over 30 years of experience
8 in the bedding industry and is currently President of
9 China Logistics Partner Network Company.

10 Finally, Martin Wolfson, President of Texas Pocket
11 Springs, a domestic producer and distributor of pocketed
12 coils and an importer of South African Bonnell coils.

13 Finally, Joe Piper, President of Pacific Springs
14 Manufacturing.

15 I'd just like to summarize a few basic points
16 here. Let's start with the U.S. producers.

17 Leggett& Platt, a Petitioner in this case, is a
18 Fortune 500 company and the dominant domestic supplier of
19 innersprings. We're way beyond concentration in this
20 industry.

21 Leggett's dominance of the innersprings market is
22 enhanced by the fact that it is also a dominant producer
23 of most other significant bedding components necessary to
24 produce a mattress, except the foam and the ticking.

25 Mr. Davis was too modest today. Leggett also

1 dominates the domestic industry for components needed to
2 manufacture box springs and wood foundations which are
3 normally sold with the mattresses.

4 Finally, Leggett is one of the few producers in
5 the world of the innersprings automatic machinery that's
6 used anywhere in the world.

7 In contrast, foreign producers of subject
8 merchandise, primarily in China and South Africa, are
9 smaller, independent companies who sell directly to U.S.
10 mattress producers or sell through small importers.

11 Consumers. Consumers of innerspring domestic
12 mattresses and bedding manufacturers are comprised of
13 three basic groups. First, there are the large national
14 name branded U.S. mattress producers, the Sealy's,
15 Simmons' and Sertas' of the world. We believe that these
16 companies depend solely on U.S.-produced innersprings,
17 including both internal captive production, Sealy and
18 Simmons, and purchases from merchant producers such as
19 Leggett & Platt and Hickory Springs.

20 These companies require the large volume of
21 innersprings and just-in-time delivery of multiple
22 manufacturing locations nationwide. We believe that only
23 domestic production can really satisfy that demand.

24 These companies are estimated by us and by Leggett
25 & Platt in public statements outside this hearing to

1 account for about 60 percent of U.S. innersprings
2 consumption.

3 At the other end of the spectrum are a large
4 number of very small mattress manufacturers. Many of
5 these companies cannot efficiently consume innersprings
6 in container quantities, nor can they afford to pay cash
7 at the time of shipment as they would have to if they
8 imported, so they don't import.

9 Third, there are small, medium sized, non-
10 integrated independent mattress manufacturers. These
11 mattress producers purchase at least 50 percent and often
12 more of their innersprings from Leggett & Platt or other
13 domestic producers, and most companies purchase more of
14 their total consumption from domestic producers.

15 Now let's talk about the domestic industry
16 producing innersprings because in the context of this
17 industry, downward trends in industry indicators to the
18 extent that they exist cannot be equated to vulnerability
19 and certainly don't constitute material injury.

20 Leggett & Platt drives this industry. They are
21 very straight forward about their business plan and it
22 relates directly to the conditions of competition in this
23 case. It has acquired and shut down virtually all of its
24 domestic competition in innersprings over the last ten
25 years. But that isn't the whole story.

1 Leggett has also acquired many of the companies
2 that produce machines to make innersprings, both in the
3 U.S. and in many off-shore locations. We believe that
4 Leggett & Platt through acquisitions and mergers has
5 eliminated much of the competition worldwide in machinery
6 to produce innersprings.

7 Leggett & Platt has also established itself as a
8 dominant supplier of other significant bedding components
9 used in the production of mattresses except foam and the
10 fabric used in the ticking. This has been done in large
11 part by acquiring many serious competitors in all of
12 these component industries. As a consequence, mattress
13 manufacturers find that they have few domestic
14 alternatives but to source the innersprings units as well
15 as other critical input from Leggett & Platt.

16 It also shows why even companies who import cannot
17 stop sourcing a majority of their input from Leggett &
18 Platt.

19 As Mr. Tramel will testify, we believe that the
20 so-called S brand national mattress manufacturers
21 represent about 60 percent of U.S. consumption. In
22 addition, Leggett & Platt has developed and produced
23 numerous proprietary innerspring designs that are
24 protected by patents and trademarks and they sell those
25 mattresses not only to the three S's, but also to others

1 in the U.S. market.

2 Between these two highly profitable market
3 segments together we estimate that 70 to 80 percent of
4 the U.S. market for innersprings is effectively shielded
5 from import competition.

6 In the remaining 20 percent of the market,
7 essentially sales of Bonnell innersprings to small and
8 medium independent mattress manufacturers. Where imports
9 do compete there remains serious constraints on imports.

10 One, very small producers cannot efficiently buy
11 in container quantities and cannot afford to pay cash.

12 Two, as our industry witnesses will discuss, even
13 mid-sized mattress manufacturers who import innersprings
14 need to buy at least 50 percent of their needs from
15 Leggett & Platt because of the long lead times and other
16 logistical challenges.

17 We believe that the sales to the S brand companies
18 by Leggett & Platt and Hickory are not covered by the
19 Commission's pricing categories. This is significant,
20 because to the extent that Leggett & Platt faces no
21 import competition in that segment, they cannot complain
22 that they are losing sales to imports. Nor can price
23 pressure be a result of their sales to those three S
24 producers.

25 Leggett & Platt's pricing to that segment is a

1 reflection of market conditions and pricing pressure in
2 the downstream market for mattresses. To the extent that
3 Leggett & Platt has experienced price depression due to
4 these factors, any effects on their profitability have
5 nothing to do with innerspring imports.

6 Finally, for all the same reasons, Leggett & Platt
7 is not threatened with material injury from imports.
8 We've talked about the disadvantages that imports have in
9 terms of competing in this market. Moreover, we believe
10 that import trends are likely to decline due in large
11 part to the value of the dollar. South African imports
12 have already declined dramatically in 2007 as Mr. Wolfson
13 is going to explain. China has also lost its
14 competitiveness as Mr. Enoch is going to explain.

15 Finally, on the import classification issue, let
16 me just say this. We understand and we're going to put
17 before the Commission various letter rulings that go
18 different ways on the proper classification of this
19 product, so we do not accept the characterization of
20 Petitioners that there has been misclassification.

21 On the more relevant issue of how the Commission
22 determines the value and volume of imports we intend in
23 our post-hearing brief to put in information which
24 estimates the size of the imports and their percentage of
25 the market. We understood your question and we're going

1 to do our best to try to come up with a solution to that
2 problem.

3 Thank you, and with that I'll turn it over to Mr.
4 Tramel.

5 MR. TRAMEL: Thank you, Julie. Good afternoon.
6 My name is Kerry Tramel. I'm the President of Lady
7 Americana. Lady Americana is a mattress manufacturer
8 located in Oklahoma City. We're also a licensing
9 company. We have 13 facilities located throughout North
10 America and I've been in the mattress business for 18
11 years. I am currently the former past Chairman of the
12 ISPA. I was the chairman from 2006-2007.

13 My company has purchased imported innersprings
14 from all subject countries. I also purchase substantial
15 quantities of innersprings from domestic producers
16 including Leggett & Platt. Everyone purchases from
17 Leggett & Platt. They're an extremely successful
18 company. In this particular investigation they are the
19 800 pound gorilla in the room.

20 Leggett is claiming that imports are injuring it.
21 This is difficult for me to believe. Leggett is, without
22 question, the single dominant player in the world in the
23 mattress business. According to Furniture Today, the
24 percentage of U.S. innerspring mattress market accounted
25 for by Sealy, Serta, and Simmons appears to be

1 approximately 60 percent. Imports do not sell into this
2 market segment.

3 The innerspring mattress production volume of
4 these three huge mattress producers is such that
5 primarily for logistical reasons they choose to rely on a
6 U.S. source of supply, either their own internal
7 production and/or purchases from Leggett or a smaller
8 U.S. producer.

9 Between this and the financial advantages they
10 reap from sourcing from Leggett & Platt these three
11 producers do not and are not likely to purchase any
12 imported innersprings. Again, to the best of my
13 knowledge, this market segment is entirely shielded from
14 import competition.

15 Of the remaining 40 percent of the innerspring
16 mattress market about half is still locked up by Leggett
17 or Hickory. This part of the market consists of smaller
18 companies with lower volumes who cannot accept the
19 container load purchases or who can't deal with the
20 hassles and other costs associated with importing.

21 Leggett also offers financing while imports often
22 require payment in advance or at site. A portion of this
23 market is also taken by proprietary designs that are only
24 offered by the domestic producers.

25 That leaves about 20 percent of the innerspring

1 mattress market in which imports could even theoretically
2 compete. The mattress producers before you on this panel
3 are included in this segment.

4 But even in this 20 percent I would say only half
5 are in position to use the imports. First and foremost,
6 many companies like mine won't consider sourcing more
7 than half of their product from overseas. We can't be
8 totally dependent on imports. We run a just-in-time
9 operation and imports are only a supplement.

10 Other smaller manufacturers simply don't have the
11 ability to deal with imported containers and all that
12 entails in terms of personal and logistical support.

13 I do not believe that imports from China, Vietnam
14 or South Africa are injuring Leggett or the other U.S.
15 producers of innersprings, and I don't see any threat of
16 this happening in the future given the cost increases
17 that continue to occur overseas.

18 For these reasons, imports are an insignificant
19 portion of the U.S. market for innersprings. This is not
20 going to change in the foreseeable future given the
21 structure of this market.

22 I thank you for your time and look forward to any
23 questions you might have.

24 MR. DIAMONSTEIN: Good afternoon. My name is
25 Richard Diamonstein. I'm Executive Vice President of

1 King Coil Mid-Atlantic, Paramount Industrial Companies in
2 Norfolk, Virginia. I've also been actively involved in
3 the International Sleep Products Association serving from
4 1996 to the present time. I served as the Chairman in
5 2003 through 2004.

6 Paramount is an importer and domestic purchaser of
7 innersprings.

8 My company is a mid-sized producer. We are part
9 of the Comfort Solutions and King Coil group of
10 licensees. There are 12 other Comfort Solutions
11 licensees in the United States. Comfort Solutions is the
12 fifth largest innerspring mattress manufacturer in the
13 U.S. behind Spring Air. We are currently the largest
14 group of independently owned mattress manufacturers in
15 the U.S..

16 Like a lot of the folks on our side here today, we
17 consume the innersprings we purchase to produce
18 innerspring mattresses. I'm here this morning to talk
19 about the U.S. market for innersprings and mattresses.

20 The innerspring market is affected by the overall
21 demand for innerspring mattresses in the U.S.. Demand
22 for mattresses loosely correlates to the condition of the
23 overall economy, and more specifically, consumer
24 purchasing power, consumer sentiment, and the housing
25 market. Factors like gas prices affect discretionary

1 income and demand for all consumer products like
2 mattresses.

3 The housing market in 2004 and 2005 was
4 characterized by particularly strong demands which also
5 pushed demand for mattresses very high. According to
6 statistics compiled by the International Sleep Products
7 Association, the value of mattress shipments increased in
8 both 2004 and 2005 by 14 and 16 percent respectively over
9 the prior year with the volume of mattress shipments
10 increasing by two percent and seven percent respectively.

11 Like Leggett and due to market conditions, our
12 company experienced decreases in sales in 2006 and 2007
13 after many years of increased sales. We have had to make
14 adjustments to our workforce accordingly. The mattress
15 industry is a mature and stable industry. The real story
16 in mattress sales over the past few years is the rise of
17 non-traditional mattresses such as foam, latex, visco
18 elastic foam and air. Visco elastic is the generic name
19 for the kind of foam used in TemperPedic beds.

20 The non-innerspring mattresses account for a
21 growing share of mattress sales. ISPA statistics
22 estimate that these non-innerspring mattresses account
23 for about nine percent of total mattress sales in terms
24 of units. In terms of value however, the share of total
25 mattresses for non-innerspring is more than 20 percent.

1 Our company is currently selling more non-
2 traditional sleep products and fewer innerspring
3 mattresses as a percentage of our overall mattress sales
4 than in previous years. The marketing behind the
5 TemperPedic and Select Comfort mattresses has been very
6 successful. You can turn on cable TV on almost any night
7 and find commercials for either of these mattresses.
8 They have really generated interest and curiosity from
9 the consumer which we think has increased traffic at the
10 retail level.

11 Many consumers consider purchasing non-traditional
12 mattresses now rather than innerspring mattresses. But
13 the non-traditional mattresses are at the very highest
14 end of the market, usually in the \$2000-plus range.
15 There are some traditional mattresses in this range, but
16 the super high end innerspring mattress market is more of
17 a niche market.

18 Because of the higher price points of these non-
19 traditional mattresses, some consumers who are
20 uncomfortable with their current mattress come in to a
21 bedding store to buy a TemperPedic or Select Comfort bed
22 but leave with an innerspring mattress. Other consumers
23 who are not interested in these non-traditional
24 mattresses still see them in the store and may pay more
25 for an innerspring mattress than they would without the

1 more expensive product to compare it to, so it has been
2 helpful.

3 So overall, unit prices of mattresses have been
4 climbing steadily. We think this can be related to the
5 increase in sales of non-innerspring mattresses. We need
6 to offer both innersprings and the non-traditional
7 mattresses so we still need to buy a substantial amount
8 of innersprings which continues to account for the bulk
9 of our mattress sales. We purchase innersprings from
10 both domestic and import sources.

11 On the domestic side in the distant past we
12 purchased innersprings from numerous competitors of
13 Leggett & Platt. Those companies were acquired by
14 Leggett & Platt and no longer exist. Now our main U.S.
15 supplier is Leggett & Platt and there are few
16 alternatives.

17 Leggett is a tremendously successful and powerful
18 company. Leggett has significant control over the
19 bedding components market at many levels including
20 internal mattress components, box springs and
21 innersprings.

22 Leggett has a number of advantages relative to
23 imports. First, they can offer package deals to
24 customers because they produce numerous components for a
25 mattress. In fact Leggett is the dominant U.S.

1 manufacturer of most mattress components with the
2 exception of ticking and foam.

3 Second, Leggett offers payment terms whereas most
4 Chinese suppliers we have worked with require payment at
5 site.

6 Third, as Leggett itself states in its annual
7 report, it has advantages over imports relating to
8 transportation costs, working capital costs, level of
9 service, flexibility and logistics. Importing product
10 requires significant investment on the part of a mattress
11 manufacturer including warehouse space, capital outlay
12 and logistics management. We also spend money on
13 qualifying our overseas suppliers.

14 Leggett is unquestionably the price leader in the
15 market. Because it controls so much of the market and
16 because it has a virtual lock on the large mattress
17 manufacturing business, Leggett exercises great influence
18 on overall pricing.

19 Back in 2003 and 2004 Leggett was our sole
20 supplier of innersprings. It is unlikely that any new
21 supplier of innersprings can emerge given their overall
22 dominance of the industry.

23 We therefore understand that our only sources of
24 U.S. supply will continue to be Leggett and Hickory
25 Springs. For a mid-sized business which has to compete

1 with the larger S brand manufacturers that receive more
2 favorable treatment by Leggett, the worst scenario is to
3 have disruptions in your component supply. You have to
4 be diversified.

5 We began exploring alternatives to Leggett. The
6 major motivating factor was to avoid feeling like we had
7 no choice.

8 Over the past few years we have looked to both
9 Europe and China for alternative bedding components. We
10 originally looked at four innerspring suppliers in China
11 but we narrowed it down to two. For us, quality is
12 extremely important, more so than price. These two
13 foreign suppliers have offered a reliable, comparable and
14 high quality alternative to Leggett.

15 We still purchase an overwhelming majority of our
16 innersprings from Leggett & Platt. Our imported
17 innersprings supplement our domestic purchases and make
18 our company stronger because we have multiple sources of
19 supply.

20 The business that we gave to imports never was or
21 is that significant compared to what we purchase from
22 Leggett.

23 Leggett is arguing in this case that the imports
24 are causing it injury. I find this hard to believe.
25 Leggett is a huge company that dominates the U.S. market.

1 For Leggett to claim that it is being injured by imports
2 from China, South Africa and Vietnam is hard for me to
3 understand.

4 Our imports started to increase in 2005. They
5 peaked in 2006 and declined in 2007. Prices from China
6 have been steadily increasing due to raw material costs
7 and the weakening of the dollar. As a result, Chinese
8 products have become less competitive.

9 We all knew that prices from China were going to
10 increase and that the supply was going to get much
11 tighter going into 2008 so we were surprised by the
12 timing of this case.

13 We do not believe that the imports from China were
14 or have been injuring Leggett and we certainly do not see
15 any future threat given. Imports are just too small and
16 they should decrease based on current economic trends.

17 Thank you, and I'll be available to respond to any
18 questions you may have.

19 MR. ENOCH: Good afternoon. My name is Robert
20 Enoch. I'm the President of China Logistic Partner
21 Network Company, Ltd. My company is a sourcing agent for
22 small and medium sized independent U.S. mattress
23 producers. I also act as importer of record for some of
24 our shipments.

25 I travel to visit innerspring factories in China

1 approximately five to six times per year and am generally
2 familiar with the companies in China.

3 I have been involved in the mattress and
4 innersprings industry for most of the last 30 years. I
5 started as a manufacturing manager of a Sealy mattress
6 factory and rose through the ranks to Vice President of
7 Manufacturing and then Vice President of Operations.
8 After 13 years at Sealy I spent time in the home
9 furnishings and sports equipment industries. I returned
10 to the bedding industry ten years ago, first with three
11 years as Executive Vice President and Chief Operating
12 Officer of International Bedding, Inc., followed by five
13 years as Senior VP and Chief Operating Officer of Spring
14 Air, then one and a half years as Chief Financial Officer
15 and VP of Operations of King Coil Companies.

16 In most of these positions my focus was on
17 manufacturing and sourcing issues. I started my own
18 business, China Logistic Partner Network in 2005.

19 The Leggett complaint claims that imports from
20 China, Vietnam and South Africa are dumped and are
21 causing injury to Leggett and Hickory. I would like to
22 explain to you why I think this is not the case.

23 Let me begin by discussing the development of the
24 Chinese innerspring industry with which I am most
25 familiar. The Chinese innerspring industry is composed

1 of small producers. I estimate that there are no more
2 than maybe 10 or 12 producers of innersprings that are of
3 the quality that is acceptable in the international
4 market. These are small volume producers who make only a
5 small fraction of what Leggett produces. This may be in
6 part due to the fact that the Chinese innersprings are
7 produced mostly on manual production equipment that is
8 not prohibited by Leggett's patents.

9 Really the innerspring industry in China is an
10 off-shoot of the mattress industry. China has a growing
11 domestic market for innerspring mattresses. In fact this
12 is why Leggett & Platt has shifted so much capacity over
13 there, to be close to their mattress producing customers.

14 Many of the Western mattress brands are now in
15 China, such as Simmons, Sealy, Serta, King Coil,
16 Restonic, TheraPedic and Eclipse. European brands such
17 as Silent Night and Ducsiana also are present. Leggett
18 has even connected itself with a mattress factory in
19 Ningbo. My guess is that the largest overall capacity
20 increase in China is actually within Leggett & Platt's
21 many new Chinese facilities supplying mattress producers
22 for the domestic market and eventually the U.S. market.

23 Leggett is facilitating the move of mattress
24 production from the U.S. to China. Over time this will
25 affect U.S. mattress production which in turn reduces

1 demand for innersprings. Leggett is diluting its own
2 market for innersprings in the U.S..

3 Unlike Leggett, most of the Chinese producers are
4 not integrated and must purchase spring wire from
5 unrelated factories. I have never seen an innerspring
6 producer in China who produces their own wire. This
7 means that the Chinese are affected by increases in wire
8 rod cost, which in turn increases spring wire costs.

9 The fastest increase in the imports from China
10 came at the early point in 2004 and 2005 when Chinese
11 wire prices were at their lowest and before China's
12 currency began to climb in value in relationship to the
13 U.S. dollar. Back then the rod prices in China were
14 around 3,000 RMB per metric ton. Between January 2007
15 and January 2008, wire rod prices in China increased to
16 4,500 RMB per metric ton. This increase was magnified by
17 the appreciation of the Chinese currency. From 2004 to
18 January 2008 the RMB rose by about 13 percent with most
19 of this increase hitting right in 2007.

20 The net effect of the increase in real wire rod
21 prices in China combined with the rise in the RMB has had
22 a net increase in raw material prices of more than 50
23 percent on wire rod.

24 Some manufacturers, like my own suppliers, have
25 locked in lower wire prices during the early half of

1 2007, but these contracts have expired and my factories
2 began instituting price increases in the last quarter of
3 2007 with another round of price increases coming now.
4 Wire rod is also getting a lot tighter to get.

5 So the Petitioners' suggestion that Chinese
6 imports will continue to increase is simply not true.
7 After an increase in 2006 and early 2007 shipments from
8 China declined as wire rod prices increased and continued
9 appreciation of the RMB forced the Chinese producers to
10 raise prices. I am already seeing this happen.

11 This also reaches another point, whether or not
12 Chinese imports have increased in the past there is only
13 a limited market among the U.S. mattress producers who
14 even consider sourcing from abroad. As you have heard
15 from other folks here this morning and this afternoon,
16 imports really are relegated to a share of the mattress
17 market of only about 10 to 15 percent.

18 As a former employee of both Sealy and Spring Air
19 I can tell you that the volumes produced by these
20 companies are such that they can't use imports. Leggett
21 and Hickory also shield themselves from imported
22 competition through the use of proprietary designs and
23 patented products. Leggett and Hickory have at least
24 three patents on innersprings which are vigorously
25 enforced. These are Leggett's superlastic continuous

1 wire; and Leggett and Platt's vera coil innerspring. The
2 vera coil is an LFK type spring with four turns of wire
3 as opposed to five or six. And Hickory's inner act,
4 which is an LFK type spring that it licenses to Leggett.

5 The superlastic continuous wire spring deserves
6 some discussion. The continuous wire innerspring is the
7 design that is the most efficient use of steel of any
8 innerspring type. The angle of the coils can be steeper
9 in a continuous wire coil, which means that you can
10 attain the same height but with fewer turns in the coil
11 than any Bonnell or even in most LFK designs. Reaching
12 the same height with less wire means a cost savings.

13 The mattress producers and retail stores tout the
14 continuous wire as a selling feature because it
15 distinguishes the coils from a Bonnell. The continuous
16 wire is incorporated into the mattress production in the
17 exact same way as a Bonnell or other innerspring design
18 and the resulting mattress looks and feels no different.
19 The real benefit is to Leggett who can produce the
20 superlastic with less steel than its competitors.

21 Even though the superlastic continuous wire
22 innerspring costs less to produce, Leggett has
23 traditionally been able to charge the same or more for
24 this product than other innerspring styles because of
25 marketing continuous wire as a feature and because of

1 Leggett's patents.

2 The other patented products and propriety designs
3 have been where Leggett and Hickory Springs have reaped
4 big profits from the mattress producers over the years.

5 As I mentioned before, based on my extensive
6 experience in the innerspring and mattress industry, I
7 can tell you that these proprietary designs and patented
8 products are very successful marketing strategies.
9 Whether they are really superior products is in the eye
10 of the beholder, but they offer a number of competitive
11 advantages to Leggett and Hickory, for sure in their
12 large customers like Sealy and Serta.

13 But these large mattress customers are facing
14 price pressures from other quarters including new
15 government enforced flammability requirements and
16 consumer resistance to increased mattress prices. The
17 price pressure is coming from Leggett's customers who do
18 not and will not import, so imported innersprings are not
19 the problem and eliminating imported innersprings is not
20 the solution.

21 Leggett is the price leader in this market. No
22 other company has such influence over pricing in the U.S.
23 market. Hickory Springs, for example, often follows
24 Leggett's prices. But Hickory Springs is much smaller
25 and does not offer the full range of bedding components

1 like Leggett. Leggett is able to leverage its supply of
2 all bedding components in a way that no other
3 manufacturer can.

4 For example, Leggett manufactures semi-flex box
5 springs at its Monroe, Georgia and Carthage, Missouri
6 facilities. The same locations where innersprings are
7 manufactured. Leggett has patents on this type of box
8 spring and its only competition is non-wire foundations.
9 Since customers need both a mattress and a foundation,
10 Leggett is able to tie its sales of innersprings to the
11 sale of box springs.

12 Let's walk through how Leggett has managed to
13 drive out its competitors in the bedding industry.

14 In the 1990s there were five major manufacturers
15 of innersprings -- Steadly, Saval, Atlas Springs, Hickory
16 and Leggett. Leggett has acquired and shut down all the
17 producers other than Hickory Springs since the end of
18 2006. They followed the exact same pattern in the global
19 industry, producing the equipment to manufacture
20 innersprings. Leggett acquired all but one of the global
21 producers of innerspring equipment and then went after
22 the foreign producers of innerspring manufacturing
23 equipment. Leggett now owns every foreign manufacturer
24 of automatic innerspring machinery.

25 Leggett employed the same strategy to become the

1 dominant U.S. manufacturer of most every other major
2 components of mattresses including light wire.

3 Leggett claims its success is due to its ability
4 to follow its customers abroad and acquire its
5 competitors, but it operates worldwide and many of the
6 products it sells in the U.S.. Consequently, Leggett is
7 very familiar with the changing landscape of production
8 in China and in its most recent call to shareholders in
9 October of last year noted they are beginning to see
10 manufacturing in China as less competitive due to
11 currency, inflation and increasing costs.

12 Imports of innersprings are not a threat to
13 Leggett or any U.S. producer.

14 Thank you very much, and I would be happy to
15 answer any questions you may have.

16 MR. WOLFSON: Good afternoon. My name is Martin
17 Wolfson, I'm the President of Texas Pocket Springs and
18 Central Bedding Components. I've been in the mattress
19 business since 1986. I previously worked for National
20 Frame Company, IBC Component Division, and a partner of
21 Southerland Hilton UK. All of these companies supplied
22 mattress components to the mattress industry and all were
23 bought by Leggett & Platt.

24 My present company, Texas Pocket Springs, has
25 produced pocketed coils in Texas for the last seven

1 years. We have 35 employees in our production facility
2 in Keen, Texas, southwest of Dallas. We also operate a
3 distribution center in North Carolina with an additional
4 four employees.

5 I admire Leggett & Platt as a company. They are a
6 huge Fortune 500 company that is respected around the
7 world.

8 My company is a U.S. producer of merchandise
9 subject to this case and we oppose this petition.

10 The reality is that we pick up the crumbs in this
11 market that Leggett drops. In our view, this action is
12 just another attempt by Leggett & Platt to drive out all
13 competition, whether domestic or foreign.

14 Leggett has also followed an aggressive strategy
15 of buying and then closing innerspring producers. Since
16 I've been in the business Leggett has bought and
17 subsequently closed Steadly, Webster and Saval, back in
18 2003.

19 All these acquisitions and closures occurred
20 before the imports really played any role in the U.S.
21 market. I feel that Leggett just wanted to control the
22 market.

23 As the Commission may know, Leggett & Platt also
24 holds patents on many of the machines necessary to
25 produce Bonnell innersprings by automatic assembly. This

1 makes it difficult for people to start a spring-making
2 facility in the U.S.. Leggett bought up the main global
3 producers of Bonnell automatic production machinery --
4 Spool, in Switzerland, and Fidez in Italy.

5 Texas Pocket Springs does not produce Bonnell
6 innersprings in the U.S.. We are associated with one of
7 my partner companies that have built and patented our
8 machinery to produce pocketed coils.

9 The cost to set up even a small spring-making
10 facility are high. The term pocketed coils is a
11 trademark of Simmons, but the style of fabric and case
12 coils is also used by many others, called the marshal
13 unit.

14 This type of innerspring represents a very minor
15 portion of the overall innerspring mattress market.
16 Pocketed coils tend to be higher priced since they are
17 perceived by mattress consumers as having unique
18 qualities. Also it costs more to manufacture.

19 Some of our customers use both Bonnells and
20 pocketed coils. We use our own production to supply the
21 niche market for pocketed coils on the one hand. For
22 Bonnell innersprings we act as a U.S. agent and importer
23 for a South African producer called BCM, Bedding
24 Component Manufacturers, also known as Buffalo Springs.

25 We have brought innersprings from South Africa

1 since as far back as 1998. The lead time from South
2 African can be as long as eight weeks. Prior to about
3 2003 all of our imports of innersprings were shipped
4 directly to our customers from the factory in South
5 Africa.

6 In late 2003 and early 2004 we began importing
7 into our warehouse in order to have a small percentage of
8 material available in inventory for our customers.
9 However, our inventory has never exceeded more than ten
10 percent of our sales, so our customers continue to face
11 longer lead times and greater risk on most parts of their
12 purchases from us than when they buy from Leggett &
13 Platt.

14 Besides the high quality of our units, our
15 customers are willing to accept the inconvenience and
16 uncertainty of buying our imported product in order to
17 avoid being 100 percent dependent on Leggett & Platt.

18 One example came in September 2003 where Leggett
19 was warning the U.S. mattress producers of shortages in
20 wire rod. One of our past customers in New Jersey
21 returned to us because they were concerned about the
22 availability of springs in the U.S.. In fact our
23 customers choose the South African Bonnell innerspring
24 because our quality allows us to offer an alternative to
25 Leggett & Platt, albeit on a very small scale.

1 Our domestic production of pocketed springs is
2 competitive with Leggett for exactly the same reason.

3 In terms of quality, our South African Bonnell
4 product is manufactured from 90 percent virgin steel
5 rather than 90 percent recycled scrap steel as is used
6 elsewhere in the world.

7 Bonnell innersprings from South Africa have
8 typically been positioned at the higher end of the
9 Bonnell innerspring market because of our quality,
10 commitment and working relations with our customers.

11 Our customers are mattress producers who typically
12 purchase a whole range of mattress components from
13 Leggett & Platt including innersprings, box springs,
14 fabric, non-woven fabric, box spring foundations, and bed
15 frames. In most cases we are a backup or a secondary
16 supplier.

17 Our customers are not the huge mattress producers
18 such as Sealy, Serta and Simmons. Rather, we sell to
19 smaller and medium sized independent mattress producers.

20 I would agree with the testimony you have heard
21 from the others on our panel today that the portion of
22 the innerspring mattress market accounted for by these
23 three companies alone is about 60 percent.

24 This segment of the market is supplied exclusively
25 by U.S. produced innersprings from Leggett & Platt and

1 Hickory Springs or from the big mattress manufacturers'
2 own production.

3 The production volume and logistical issues of
4 these huge producers is such that it makes it difficult
5 for them to source off-shore. My estimate that only ten
6 percent or so of the U.S. market for innersprings is
7 actually available to supply from off-shore.

8 Our South African imports have always been a very
9 small share of the U.S. market and concentrated only in
10 the East Coast and Gulf states market. We sell very
11 little South African product on the West Coast.

12 One of the reasons customers purchase from us is
13 that we are not Leggett & Platt. Leggett has been so
14 successful in acquisition strategy of innerspring
15 producers that our customers feel vulnerable about
16 putting all their eggs in one basket and not having a
17 backup supplier.

18 For example, Leggett and Hickory control virtually
19 all of the domestic production of box springs which are
20 typically sold on a nearly one-to-one ratio to
21 mattresses. They have many patents on this technology
22 and there are few if any competitors to Leggett and
23 Hickory in the box spring and foundation market.

24 Leggett makes it very easy for customers to buy
25 package deals of box springs and innersprings. On the

1 other hand, our customers tell us that if they do not
2 purchase whole packages they might find trouble in
3 sourcing box springs and other necessary components.

4 Leggett offers discounts and volume rebates to
5 customers who buy all their mattress components from
6 Leggett. We simply can't compete on these terms as we
7 can't supply these other components and the rebate
8 figures are so high that even if we gave our springs to
9 the customer for free this would not add up to the rebate
10 they would receive from Leggett & Platt.

11 Yet as I mentioned before, we have created a small
12 niche for South African product because of our high
13 quality and for our customers to have an alternative
14 supply to Leggett & Platt.

15 Unfortunately, due to the falling value of the
16 dollar we have been forced to decrease our shipments to
17 the U.S.. Imports in 2007 dropped dramatically to a
18 little more than a third of the level in 2006. And
19 frankly, we do not expect to ship even that quantity in
20 2008.

21 BCM, the only South African producer that ships
22 innersprings to the U.S. has a strong and growing
23 domestic market for their product.

24 Texas Pocket Springs and our South African
25 supplier have not engaged in unfair pricing. In fact we

1 believe that our customers have often paid more for our
2 product than those produced by Leggett simply to have
3 competition in the marketplace.

4 Thank you, and I'd be pleased to answer any of
5 your questions.

6 MR. CAMERON: Mr. Burgess wants to say a couple of
7 words.

8 MR. BURGESS: Thank you for the opportunity to
9 speak.

10 I wanted to point out that my company buying
11 import springs has nothing to do with price. The reason
12 we bought springs from out of the country was because we
13 could get no service from Leggett & Platt or Hickory. In
14 the 21 years I've been in business they have never
15 delivered a product to my factory. Never.

16 Now what this means is I have to go to their
17 factory and pick up whatever I want. Then I'm limited to
18 what I can buy. I can't get a continuous coil unit. I
19 can't get an LFK. Whatever the proprietary product that
20 they sell other companies are, I can't get. So I can't
21 market in those areas.

22 So now I'm limited by having to go pick it up,
23 having to pay a higher price than the bigger companies,
24 and having less to choose from to compete with. Like
25 they said, this is an industry about relationship. So if

1 I have a relationship with this guy over here and he's
2 using a continuous coil spring in one of his lines, he
3 says Ray, if you can give me that I'll buy it from you.
4 Well, Leggett's already got me out of the deal because I
5 can't get the spring.

6 So it's not about just price. It's not even
7 close. A 7,000 mile away product supply isn't practical.
8 I have to have an extra building to keep the springs in,
9 two forklifts more to unload them and to handle them, so
10 it's not about price. It's about service and market
11 fairness and being able to level the playing field so my
12 size company can play.

13 That's about all I have to say because everything
14 else has pretty well been said.

15 Oh, we're Mattress Makers of Tacoma, Washington.

16 And by the way, I never worked for another
17 mattress factory. We started in a garage along with John
18 back there, he did too. But we've always had to fight
19 our way, every step of the way because we could never get
20 a level playing field. Now we have it.

21 If you guys spank us, well, we'll be back to where
22 we were. We'll still survive, but it will be difficult.

23 Thank you.

24 MR. FIGUEROA: Good afternoon. My name is Paul
25 Figueroa from the law firm of Grunfeld Desiderio. I will

1 make a very short statement on behalf of the Chinese
2 producers.

3 We submitted some foreign producers questionnaire
4 responses last Friday and we'll submit another one this
5 afternoon.

6 These responses are representative of the Chinese
7 industry and just briefly they show that exports to the
8 U.S. have decreased in 2007 and that it's expected that
9 these exports will continue to decrease in 2008. The
10 questionnaire responses also show that sales in the home
11 market as well as other non-U.S. markets increased in
12 2007 and it's also expected that these sales in China and
13 to other markets will continue to increase in 2008.

14 Finally, the questionnaire responses show that the
15 Chinese producers overall production capacity will not
16 increase in 2008.

17 In short, the Chinese producers are not dependent
18 on the U.S. market and in light of these trends,
19 declining exports to the U.S. and increasing sales in the
20 home market and other non-U.S. export markets and a
21 stable production capacity, we don't believe that the
22 Commission can conclude that there is even a reasonable
23 indication of injury or threat.

24 We have not brought any witnesses here today, but
25 I'll be happy to pass along any questions that the staff

1 may have to our clients and we'll provide answers in the
2 post-conference brief. Thank you.

3 MR. CAMERON: That concludes the panel.

4 MR. CARPENTER: Thank you, panel, very much for
5 your presentations. We'll begin the questions with Mr.
6 McClure.

7 MR. McCLURE: The stock market is down.

8 (Laughter).

9 Since a number of you have visited factories in
10 China, South Africa, anybody visited any of the factories
11 in Vietnam?

12 MR. TRAMEL: I have.

13 MR. McCLURE: Mr. Enoch, you mentioned you would
14 estimate 10 to 12 factories in China produce at a quality
15 level that is sufficient to participate in the
16 international market. I assume this means there are
17 other Chinese producers who don't produce a product
18 that's internationally competitive?

19 MR. ENOCH: That is correct. There are many
20 Chinese producers that do not make a product that --

21 MR. McCLURE: How many is many?

22 MR. ENOCH: I don't think anyone knows.
23 Statistics are not very readily available in China.

24 MR. CAMERON: If I may, Richard, you had an
25 experience --

1 MR. McCLURE: Yes, anybody who has been there --

2 MR. CAMERON: -- through and I think it's relevant
3 because --

4 MR. McCLURE: Yes. Stand up and --

5 MR. CAMERON: -- why did you choose the two that
6 you did and why didn't you just get it from the other
7 unknowable quantity?

8 MR. McCLURE: I'm throwing these questions out as
9 a panel, so just jump in where it's appropriate.

10 MR. DIAMONSTEIN: There was a manufacturer of
11 innersprings that after a trip that I took over to China
12 decided to give them a chance because they seemed like a
13 decent company, the contacts that I had. I did not see
14 the factory in that case which kind of goes against the
15 way that I normally do things. With everybody else that
16 I'm buying from I go to visit those factories.

17 But we bought a container. What tempted me was
18 the fact that they did not require payment until the
19 goods were received and they could be inspected, since I
20 had not gotten any samples.

21 I ordered one type of unit, a 336 coil unit and
22 when the units arrived they were, in our opinion, they
23 were a different composition. They were 312 coil units.
24 Normally everything is symmetrical on the rows and the
25 columns in an innerspring, and these had extra coils that

1 were put into these units and clipped in, that just did
2 not meet the quality standards, so I rejected them.

3 I believe the final disposition was they had a
4 distributor in California and they picked the load up and
5 they took it out to California because I would not use it
6 and I would not pay for it.

7 So there are products that are sub-standard and
8 our manufacturing facility won't accept them.

9 MR. McCLURE: Have you ever bounced a product from
10 a U.S. producer?

11 MR. DIAMONSTEIN: What do you mean bounced?

12 MR. McCLURE: Sent back.

13 MR. DIAMONSTEIN: Rejected because of quality?

14 MR. McCLURE: Yes.

15 MR. DIAMONSTEIN: Sure. Nothing is --

16 MR. McCLURE: Nothing is perfect.

17 MR. DIAMONSTEIN: It's not perfect, but yes.

18 MR. McCLURE: The plants any of you have visited
19 in China, I believe everybody has to buy the wire.
20 Nobody is integrated. But beyond that, is the production
21 process similar to what you would see in the U.S.?

22 MR. ENOCH: No.

23 MR. McCLURE: I'm talking in these 10 to 12 that
24 can compete internationally.

25 MR. ENOCH: No. The standard of production in the

1 U.S. is totally automated, coiling, knotting, heat
2 treating assembly. It's all done with one machine. It's
3 called an automatic transfer.

4 I know of one automatic transfer in China other
5 than what Leggett & Platt may have. But the Chinese
6 manufacturers in China, for the most part, because you
7 take one step back from totally automatic, you have semi-
8 automatic. That is where a machine coils, knots and heat
9 treats the coil, and then you by hand assemble the coil
10 in an assembly machine. You go one step back from that
11 and you coil the coil with another machine, you knot the
12 coil, you heat-treat it in an oven, and you totally lace
13 it by hand. That's the predominant technology in China,
14 is the hand-lacing.

15 MR. McCLURE: In the 10 to 12 firms you mentioned
16 being competitive internationally were you including
17 Leggett & Platt's Chinese operations?

18 MR. ENOCH: No. as far as I know, Leggett & Platt
19 does not export to the U.S..

20 MR. McCLURE: Any idea, do they have one facility
21 over there?

22 MR. ENOCH: No, they have several.

23 MR. BURGESS: It's actually amazing what you can
24 get done if you decide to, and these people in their
25 dedication to doing the job and doing it right and as

1 hard as they work to produce their product, you would
2 actually be proud of them.

3 MR. McCLURE: Anybody visited facilities in South
4 Africa? Mr. Wolfson, I assume you have?

5 MR. WOLFSON: Yes, I visit the facilities about
6 twice a year. I assume your question is going to be in
7 the same vein.

8 MR. McCLURE: Yes.

9 MR. WOLFSON: The equipment used in South Africa
10 is all automatic equipment, manufactured by one of
11 Leggett & Platt's companies, Full Anderson. Everything
12 is made from, as I mentioned, 90 percent virgin steel.

13 The quality of the product is such that it exceeds
14 the quality of the local product in the U.S. which in a
15 way does create a little bit of a problem because being a
16 secondary supplier, if they use our product from South
17 Africa instead of the local product you can actually feel
18 the difference.

19 So quality is an issue going the other way.

20 MR. McCLURE: Everybody here seems to be singing
21 the same song about the increased wire cost and the
22 change in the exchange rate makes any increase in imports
23 through 2008 unlikely. Do you foresee anything changing
24 that at all?

25 Any one of you. This is open.

1 MR. WOLFSON: I would say that you've got two
2 factors. You've got the increase in the cost of raw
3 material and you've also got the decreased value of the
4 dollar, which both have a profound effect on the quantity
5 of imports into this country. Because of both of them
6 moving in the wrong direction it's making it more
7 difficult to compete in the U.S. market.

8 MR. CAMERON: I think actually what we see is, if
9 anything, the condition is going to continue to
10 deteriorate. Unless your most recent report on the stock
11 market is incorrect, it doesn't appear that the dollar is
12 going to be appreciably better in the near future. We do
13 have issues. It's going to take time to sort through
14 those.

15 Number two, as this Commission knows probably
16 better than any government body in this city, steel
17 prices are increasingly commoditized. Especially in the
18 case of China, the old story about cheap Chinese wire
19 rod, that's gone. There's too much demand. They are
20 right now building for the Olympics. Price of scrap has
21 gone up dramatically.

22 The reality is that the price of wire rod in China
23 is comparable if not sometimes higher than the price of
24 wire rod here where you're using mini-mill technology,
25 and actually if anything we have the most efficient

1 producers of wire rod in the world.

2 But when you really get down to it, the dynamics
3 that have created this problem, these are going to
4 continue in the foreseeable future.

5 So sure, there was, as has already been discussed,
6 there was a short term advantage at a time prior to the
7 jump in wire rod cost in China. Okay, but that's gone.
8 The exchange rate? I don't know. I don't see the
9 relationship between the RMB and the dollar getting
10 better from a Chinese perspective. That's not the way
11 this particular play is about to develop.

12 So the answer to your question is that the
13 developments we've seen recently, they're going to
14 accelerate, not regress.

15 MR. McCLURE: Okay. Getting on to two other,
16 either you or Ms. Mendoza, Bratsk any kind of issue here?
17 Non-subjects any kind of issue here?

18 MS. MENDOZA: It's definitely an issue that we're
19 looking at and we intend to address in our brief. One of
20 the interesting issues is Mexico and what's going on
21 there. And, obviously, with the tight time frames, we're
22 trying to investigate a little bit.

23 MR. McCLURE: Any information you have with regard
24 to Mexico would be appreciated. Now, let's move --

25 MS. MENDOZA: I have one thing, Mr. McClure.

1 MR. MCCLURE: Sure.

2 MS. MENDOZA: Also, you might want -- my
3 understanding is that Leggett & Platt has facilities in
4 Mexico, so they might well be a good source of that
5 information, as well.

6 MR. MCCLURE: If you do, please provide such.
7 Getting on the issue of misclassification, just in about
8 -- if each of you could just quickly respond to your
9 thoughts on that or your experience about the products
10 you bring in. I mean, we have had some questionnaire
11 respondents, who have indicated, as I said, they bring it
12 in under the, what, 7306, whatever. So, let's start with
13 Mr. Diamonstein and just work our way around the table.
14 What's your experience on --

15 MR. DIAMONSTEIN: On the classification --

16 MR. MCCLURE: Yeah.

17 MS. MENDOZA: I think that that's probably going
18 to be something that these companies are going to have to
19 answer in a brief, given the confidential nature of --

20 MR. MCCLURE: Okay, that's fine.

21 MR. CAMERON: That was a specific question that
22 you have in the questionnaire about what --

23 MR. MCCLURE: Yeah.

24 MS. MENDOZA: And we understood before you came
25 in, I just wanted to say that we were telling everyone

1 that we understand exactly what your question is and that
2 you want us to document, to the extent that we can --

3 MR. MCCLURE: Give it your best shot.

4 MS. MENDOZA: Exactly.

5 MR. MCCLURE: I'm not asking you in a specific
6 sense for your company's experience, but just -- and I
7 guess there's not a way to do that, so never mind.

8 MR. CAMERON: We understand your question. We
9 have no problem with --

10 MR. MCCLURE: Even if I didn't articulate it
11 terribly well.

12 MR. CAMERON: You articulated it about three
13 different times. You did it fine and that's not our
14 problem. Our problem is that --

15 MR. MCCLURE: Yes.

16 MR. CAMERON: -- yes, it is an issue that we need
17 to -- we're going to get the best information that we can
18 and give it to you. That's about as good as --

19 MR. MCCLURE: Okay.

20 MR. CAMERON: -- as we can do.

21 MS. MENDOZA: And I think in the case --

22 MR. CAMERON: And as Julie noted earlier, we do
23 have some letter rulings and we're also going to put
24 those on the record.

25 MS. MENDOZA: I think, also, that we would like to

1 clarify one thing, which is that with respect to all
2 imports, we're going to do that in our confidential
3 brief. But, certainly, with respect to South Africa, he
4 is the sole importer and agent of BCM out of South
5 Africa. And I think he explained in his questionnaire
6 response --

7 MR. MCCLURE: Okay, that's fine.

8 MS. MENDOZA: -- that --

9 MR. MCCLURE: That's fine. That closes me out.

10 MR. CARPENTER: Mr. Gallagher?

11 MR. GALLAGHER: I only have one question. Chinese
12 demand, either Mr. Figueroa or maybe Mr. Enoch, you said
13 Chinese demand is increasing. Mr. Enoch said that
14 there's, what, a dozen Chinese companies that really make
15 to international standard, let's call it, that can be for
16 export. How much of what they product is really -- could
17 be directed at this increase in Chinese demand and how
18 much of it is really essentially stuck with export?

19 MR. FIGUEROA: We know for a fact that sales of
20 the subject merchandise in China are increasing and
21 demand has increased for innersprings -- for the subject
22 merchandise. But, I'll have to get that information from
23 the clients as to your specific question.

24 MR. CLARK: I think it's important, and this is a
25 self-evident proposition, which is possibly the only

1 reason that I would think of it, but we do have the
2 Olympics that are coming up in Beijing. A lot of you
3 guys have traveled to China at one point or another. In
4 order to service those Olympics and the developments that
5 are going on with respect to those, they are building an
6 incredible amount of new hotel space, new space for
7 condos, et cetera. I mean, you go to Shanghai, you go to
8 Beijing, it's all over the place. Well, that does
9 require the internationally competitive springs to be
10 supporting that demand. So, when we talk about the
11 growth in demand in China, this is not a news flash here.
12 And it, also, is -- it's not only the development of
13 China overall, it does specifically have to do with the
14 international quality that you're talking about to
15 service these developments, and there's an awful lot of
16 that going on.

17 MR. CARPENTER: Ms. Clark?

18 MS. CLARK: I'm Kelly Clark with the Office of
19 Economics. I'd like to start with you, Ms. Mendoza. I
20 believe when you began your presentation this afternoon,
21 you mentioned that the pricing products that we have
22 included in the questionnaire do not cover sales to the
23 so-called S brands. But, then, you and Mr. Tramel, also,
24 said that there are no imports serving that segment. So,
25 I just wanted to clarify, why would we have a pricing

1 product if the imports don't cover -- don't service that
2 segment?

3 MS. MENDOZA: Right. I mean, I guess what we were
4 trying to suggest here is that we understand that those
5 pricing categories are the categories that are going to
6 capture the comparison between imported product and
7 domestic product. What we were saying is that there's a
8 whole segment of their sales and their profitability and
9 their performance that's not reflected in those pricing
10 categories and for which the only information you have
11 are average unit values. So, what we're saying is that
12 if you look at what's happening in the pricing
13 categories, in terms of their prices and the percentage
14 that represents of their totals sales, and, of course, I
15 can't get into those numbers here, but there's a -- I
16 think I can say there's a lot going on in terms of their
17 sales that is not being covered by the pricing categories
18 and that, you know, that is something that, in terms of
19 their profitability, has to be analyzed separately.
20 That's what I was trying to say, not that --

21 MS. CLARK: Okay.

22 MS. MENDOZA: -- not that your pricing categories
23 should include stuff that imports aren't in, but just
24 that keep in mind that when you're looking at the
25 percentage that the pricing categories cover of your

1 total sales, it's going to tell you something about how
2 much out there, in terms of revenue and profits and
3 things like that, there is that's not being effected by
4 imports.

5 MS. CLARK: Okay.

6 MR. CAMERON: In other words, just to take another
7 view of this issue, I mean, if you assume that 60 percent
8 of the market, which is our estimate, is the big three
9 and that that is all either (a) captively consumed or (b)
10 all supplied by U.S. producers, and if you, also, assume
11 that possibly prices there have gone down -- we've heard
12 testimony this morning that suggests -- by Leggett &
13 Platt that suggested, well, you know, the prices even to
14 the big guys have gone down, because they are feeling
15 increasing competition from independent mattress
16 producers, who are buying innersprings, well, that's an
17 important point. It goes to two things.

18 Number one, if their prices are going down to a
19 totally shielded part of the market, which we don't
20 necessarily dispute, that does raise a serious question
21 as to the causal relationship between imports of subject
22 merchandise that can't even get into that part of the
23 market and the fact that you're seeing prices fluctuate.
24 Well, why is that? Well, we would suggest to you that
25 part of the reason that that occurs is because the

1 mattress producers that have 60 percent of that market
2 also have their own market power and they are also able
3 to talk about what's going on.

4 Secondly, to the extent that those mattress
5 producers are feeling competition from independent
6 mattress producers like these, and I think these guys
7 would say that's a joke, but let's just assume
8 hypothetically that that's what we want to say, I would
9 suggest to you that as a legal matter, that is not injury
10 caused by imports of subject merchandise. That is
11 domestic competition on a downstream product caused by,
12 oh, domestic competitors of that downstream product, plus
13 the imported mattresses that our good friend back here
14 suggested that, aah, they don't really exist and if they
15 do exist, it really doesn't matter. Well, I'm not sure
16 we agree with that.

17 MS. CLARK: Actually, speaking of the finished
18 mattress imports, in terms of the representatives here
19 that are involved with -- or have been involved with the
20 ISPA, in terms of the data that I looked at from the ISPA
21 report, it did appear to me that finished mattress
22 imports from China have increased. And I would like to
23 get your take on what that's doing with the U.S.
24 innerspring mattress, in particular.

25 MS. MENDOZA: Well, before we turn that over, let

1 me just say that we do not agree with counsel for
2 Petitioners that if a mattress import comes into the
3 U.S., they're definitely losing a sale of innersprings.
4 I mean, there is a one-to-one relationship. So, to the
5 extent that they were arguing the opposite, we just
6 wanted to clarify that.

7 Do you want to talk about imported mattresses?

8 MR. TRAMEL: Well, we're certainly seeing more
9 options on the imported innersprings than what we've even
10 saw, say, 18 months ago. That has not penetrated a
11 substantial portion of the market at this point in time,
12 but we are seeing again more and more opportunities for
13 our customers to source imported mattresses from China.

14 MS. MENDOZA: And from Mexico, by the way. If you
15 look at the data, there's a sizable amount of imports
16 coming in of mattresses from Mexico.

17 MS. CLARK: Okay.

18 MR. TRAMEL: And as you see, the imports that are
19 coming in, there are things that may have affected it in
20 the middle of the year, because of new flammability,
21 federal flammability requirements. So, I'm not sure of
22 the true impact or the trends based on what has happened
23 towards the middle of the year.

24 MR. CAMERON: But, this gets back to Julie's
25 point, which is imported mattresses are -- they are an

1 upstream product or downstream product, however you want
2 to call it. It does affect the conditions of competition
3 for the product that's under investigation though,
4 because, in fact, an innerspring and a mattress go
5 together. And so to the extent that, number one, we have
6 increased purchases of posture -- what is it --
7 temperpedic mattresses and the foam and the whatever or
8 waterbeds like some of the old people here used to use --
9 I think they've declined, but some of us do remember the
10 day -- but to the extent that we have alternative forms
11 of mattresses, those do affect the conditions of
12 competition in this market. But, it's important to
13 understand, those are not imported subject merchandise
14 that are related to that. And that is why what we're
15 suggesting is, when you look at the segmentation of the
16 market and you see exactly how limited the competition is
17 for the imported innerspring compared to the rest of the
18 market, which is generally shielded, you say, well, geez,
19 are you seriously telling me that everything I'm seeing
20 is a result of imported innersprings and there's nothing
21 else going on in this market. And I say that
22 rhetorically, because that is exactly the testimony that
23 we heard this morning. And what I'm saying to you is
24 that defies belief.

25 MS. CLARK: I, actually, have another follow-up

1 question from the direct testimony. I believe it was
2 both Mr. Enoch and Mr. Wolfson that said that Leggett &
3 Platt have tied their sales of innersprings to other
4 products, such as box springs. And I just want you to
5 elaborate a little on this, in terms of how that's
6 actually accomplished?

7 MR. ENOCH: Last year, I was totally blocked out
8 from doing any business with the majority of the spring
9 air companies. Last year, Spring Air was still, for the
10 most part, a licensing organization. Since then, Spring
11 Air has been rolled up into an owned and operated.
12 There's only three licensees left. Leggett offered --
13 just keep in mind, Spring Air's proprietary product is
14 Interact LFK, which is a Hickory patent. It's a five-
15 year old patent that Hickory has licensed Leggett to use
16 the technology. So, either Leggett or Hickory, anyone
17 can make this Interact LFK. That's their number one
18 consumed unit. They consume more of that than Bonnells
19 and more of that than Pocket & Cross. But, Leggett put
20 together a deal: if you buy everything from me, Pocket,
21 Bonnell, and Interact LFK, I believe the number was seven
22 percent rebate on everything. And as Martin alluded, I
23 could have given my few pocketed coils to Spring Air and
24 it wouldn't have mattered. They would have still had a
25 much huger savings with Leggett.

1 MS. CLARK: I'm sorry, just to clarify, though,
2 those are all types of innersprings. I'm referring to
3 more -- I believe the product mentioned was box springs,
4 that they --

5 MR. ENOCH: Semi-flex, which is another patented
6 product of Leggett & Platt, was also in that binding
7 agreement.

8 MS. CLARK: Okay.

9 MR. ENOCH: That's the box spring.

10 MS. CLARK: Okay.

11 MR. ENOCH: Semi-flex, rigid wire, stackable
12 foundation.

13 MS. CLARK: Okay.

14 MR. ENOCH: Okay.

15 MS. CLARK: Thank you. Mr. Wolfson, did you have
16 anything to add?

17 MR. WOLFSON: Basically, in the box spring, for
18 every mattress that you sell, you sell a box spring,
19 unless it's going on a platform bed where the box spring
20 is not needed or unless the family is just replacing the
21 mattress, then they won't need the box spring. But,
22 generally, when you buy a mattress, you buy a box spring.
23 And the two manufacturers of box springs in the U.S. is
24 Hickory Springs and Leggett & Platt. So, they basically
25 have a monopoly of the supply of this product.

1 Now, I've had customers come to me on numerous
2 occasions where they said, look, I just don't want to buy
3 your product, because of the fear that if I do buy this
4 product from you, Leggett might refuse to sell me my box
5 springs. Now, I don't know if this is something that a
6 salesman has said to them, but it's been told to me on
7 numerous occasions. So, what it's doing by me not making
8 a box spring, and in order to make a box spring or set up
9 the factory to make a box spring, it's an enormous
10 investment. It's really putting me out of the market and
11 it's become like an exclusive market.

12 MS. MENDOZA: I'd like to say, too, that we have a
13 number of examples of this exact issue of selling a
14 variety of components along with the innerspring that we
15 would like to document, put in our confidential brief.

16 MS. CLARK: That's fine. And these are bundled
17 offers, in terms of the contract or -- okay.

18 MS. MENDOZA: Exactly, for various bedding
19 components being sold with the innersprings, box --

20 MS. CLARK: Okay.

21 MS. MENDOZA: -- springs and other bedding
22 components.

23 MS. CLARK: Okay. I'll look for that in the post-
24 conference, then.

25 Mr. Burgess, you had mentioned that you can't get

1 certain products from Leggett & Platt. You mentioned a
2 continuous coil. Can you get this exact same product
3 from overseas or is it something that's competitive with
4 these products?

5 MR. BURGESS: Competitive.

6 MS. CLARK: And this is because of the patent
7 issue?

8 MR. BURGESS: Patent and it's also proprietary
9 spring of Serta.

10 MS. CLARK: Oh, the spring, itself, is
11 proprietary?

12 MR. BURGESS: Oh, yeah.

13 MS. CLARK: Okay.

14 MR. BURGESS: So that if we're going to compete
15 with Serta and we're going to tell the Serta story that,
16 you know, there's 510 coils here, yada, yada, yada, and,
17 by the way, 95 percent of mattresses is a story, so when
18 you're selling a mattress, you know, you have to tell the
19 story as good as the guy that you're selling against.
20 So, if he's got a 600 coil unit and you've got a 700 coil
21 unit, well, 700 is better than six. It's just that
22 simple in this business. But, if you can't get into the
23 high coil counts to play, you're automatically out. It's
24 just that simple.

25 MS. CLARK: Okay. And another follow-up for Mr.

1 Diamonstein, just in terms of the King Coil family, I
2 guess, of licensees, how -- in terms of sourcing the
3 innerspring products, how -- is it dictated that they
4 only buy from certain companies? Or is the pricing set
5 at a level and the licensees have to accept it or are
6 they allowed to negotiate individually? How does that
7 work? Or is that something that needs to be in the
8 brief?

9 MR. CAMERON: WE will respond, but really it does
10 get into some confidential information. So, if that's
11 okay with you --

12 MS. CLARK: That's fine, absolutely. And if you
13 can just give me some idea of the size of the King Coil
14 family, in terms of your -- I think you referred to the
15 middle size suppliers. So, just in terms of how big of a
16 player is King Coil and their licensees in that segment.

17 MR. DIAMONSTEIN: King Coil in the latest year is
18 the -- I guess the latest year was -- the figures are
19 available is 2006 and it was the fifth largest
20 innerspring manufacturer. So, if you look at -- after
21 the four Ss, we ere the fifth innerspring mattress
22 manufacturer --

23 MS. CLARK: Okay.

24 MR. DIAMONSTEIN: -- as a group.

25 MR. MCCLURE: Excuse me one second. Did you say

1 fifth largest innerspring unit manufacturer or mattress?

2 MR. DIAMONSTEIN: Innerspring mattress
3 manufacturer.

4 MR. MCCLURE: Okay, thank you.

5 MR. DIAMONSTEIN: And in that, I didn't include
6 temperpedic or --

7 MR. MCCLURE: Okay, okay, okay. I just wanted to
8 make sure I hadn't missed something here.

9 MS. CLARK: And another follow-up for Mr. Wolfson,
10 you mentioned in September 2003, there were concerns
11 about supply issues, in terms of sourcing wire rod to
12 manufacture the innersprings. And I was wondering, since
13 that's outside of our period of investigation, since
14 2004, have there been any supply issues from the U.S.
15 manufacturing standpoint?

16 MR. WOLFSON: Not that I found.

17 MS. CLARK: Not since 2004?

18 MR. WOLFSON: No.

19 MS. CLARK: Okay. I guess the last question I
20 have is, generally, from what I've heard about the
21 manufacturing process in China, specifically, with all of
22 the labor intensive hand lacing and things like that, I'm
23 sort of looking for a cost advantage. Where is China's
24 cost advantage, if they have this very labor intensive,
25 very inefficient sounding production method? And given

1 that raw material costs are generally global costs and
2 transportation costs have been more significant in the
3 last few years than in the past, I'm looking for a little
4 bit of help on cost advantage for China specifically.

5 MR. ENOCH: And this is not meant to sound
6 facetiously, there is none. I'm not sure there ever was
7 any.

8 MS. CLARK: Well, given what I'm seeing from the
9 questionnaire responses, there has to be.

10 MR. ENOCH: Yeah. But, you've heard the
11 testimony. Most of my customers -- and I don't have a
12 lot of customers. I might have 20 customers, because,
13 again, I'm only dealing in that medium size. They didn't
14 buy from me for price. They bought from me to have an
15 alternative and, in some cases, a quality advantage, as
16 Martin has alluded to. If you spend enough -- I've lived
17 in China for two years to develop manufacturers that
18 could make product second to none. My products don't
19 take a back seat to any U.S.-made. As a matter of fact,
20 in most cases, it's better. When it's supposed to be
21 five-and-three-quarter inches high, that's the minimum.
22 The U.S. standard, AIMA's standard, American Innerspring
23 Manufacturer's Association, it's supposed to be five-and-
24 three-quarter inches, plus or minus. So, it's -- I don't
25 think a lot of the products do have a price advantage.

1 MR. CAMERON: I mean, I do think that there was a
2 point at which there was a raw material advantage and
3 certainly there was an advantage in exchange rates. I
4 think what we're seeing is that that is rapidly -- I
5 think it's eliminated now. But, I think that actually
6 it's -- that process is continuing, as we discussed
7 earlier, and those conditions will accelerate.

8 MS. CLARK: I do have one more question. In terms
9 of just building up our record a little, no one has
10 really spoke a lot about Vietnam and the conditions there
11 and even what's happening within ports in the U.S. and
12 pricing issues. Does anyone have any information about
13 the Vietnamese imports and how they've -- basically how
14 they factor into our investigation?

15 MR. TRAMEL: My company has imported from Vietnam.
16 I've been there. I've seen it. It's a pretty
17 rudimentary process. The overall impact of the
18 Vietnamese exports to the United States is, to the best
19 of my knowledge, extremely small, insignificant or less.
20 So, I don't even think -- they don't have a sales
21 structure here in the States to go out. I basically
22 heard about a factory making springs there and it was
23 primarily for their own consumption. And so, that's what
24 -- that's how we found it. And, again, I don't know of
25 any other. I haven't been approached by anyone else from

1 Vietnam. I was quite surprised to see Vietnam listed in
2 the suit. I mean, your questionnaires will give you all
3 your information about how significant of a player it is.
4 But, that's the reason why you haven't very much about it
5 today.

6 MS. CLARK: Okay. That's all I have. Thank you.

7 MR. CARPENTER: Mr. Boyland?

8 MR. BOYLAND: Good afternoon. Thank you for your
9 testimony. I have no questions.

10 MR. CARPENTER: Okay. Ms. Fan?

11 MS. FAN: Thank you all for your testimony, also.
12 I had just one basic follow-up that I'd like in a post-
13 conference submission. For those of you, who have
14 visited the manufacturing facilities overseas in the
15 three respective countries, could you provide some
16 information on what you've seen regarding the
17 manufacturing process? I'm trying to see how
18 similar/different it is to the United States, what we do
19 here. And, also, Mr. Enoch, could you expand in there
20 what you meant by automatic transfers, semi-automatic,
21 that you mentioned in your testimony earlier, if
22 possible.

23 MS. MENDOZA: We'd be happy to do that.

24 MS. FAN: Thank you. That's all.

25 MR. CARPENTER: A couple of additional questions.

1 First, is the condition of competition -- if I remember
2 the testimony correctly, I believe I heard that both
3 panels seem to agree that the mattress companies --
4 mattress manufacturers require just-in-time deliveries
5 from their suppliers. Mr. Tramel, from your testimony, I
6 thought I heard you say basically that the importers --
7 this makes it difficult for the importers, because they
8 have -- they can't compete with this just-in-time
9 delivery requirement. First of all, did I hear that
10 right? And secondly, if that's true, is it feasible for
11 importers to maintain significant enough inventories in
12 the United States that they can supply their customers on
13 short notice?

14 MR. TRAMEL: We haven't seen very much of that.
15 As far as being able to -- the direct model certainly
16 seems to work better and, yet, it's fraught with a lot of
17 challenges for the end manufacturer. The just-in-time --
18 the business model that's been successful for mattress
19 manufacturers, as long as I can remember, has always been
20 one that you get your components -- you make the sale,
21 you get your components in, you make a mattress, you sell
22 the mattress, you get your money before your invoice is
23 even due on your components, and that's an obstacle that
24 the importers really have had to struggle and struggle to
25 overcome and it's a challenge that I don't think they've

1 met very well, quite frankly.

2 MR. CAMERON: Just to follow-up, I mean, I think
3 the question you raise is a good one, in that I don't
4 think that there's any controversy here between the two
5 sides with respect to (a) the just-in-time delivery
6 system or (b) the importance of it to the consumers.
7 But, once you admit that, then that carries with it a
8 couple of other things.

9 Number one, we don't see a lot of inventory by
10 importers. It's very expensive. And this is not the way
11 that this trade has evolved. This, again, gets to the
12 issue of exactly how competitive are the imports. Well,
13 if you're doing a just-in-time operation and you're
14 depending upon your supplier 7,000 miles away and, by the
15 way, was there a storm last night. I mean, there's a
16 real problem with this whole concept of just-in-time
17 delivery when you are talking about a transportation
18 system that is that long. We're not talking nuclear
19 physics here. I mean, we all understand it. All we're
20 saying is that to the extent the just-in-time delivery is
21 an important fundamental of a large section of the
22 industry, this particular -- the imports don't fit neatly
23 into that slot. It is a huge disadvantage for them and,
24 in fact, there isn't -- there hasn't been built up this
25 inventory system around the country, so that, in fact,

1 the imports can act just as domestic manufacturers.

2 That's far from the case.

3 So, when they're ordering from Petitioners or from
4 Hickory and they say, look, I need that tomorrow, they
5 expect it tomorrow and they're going to get it tomorrow.
6 For our guys, when you order it, yeah, okay, well, I
7 think I can get it for you in two months. That's just-
8 in-time two months from now, but it's a far cry from --
9 it's a far cry. And it is an important condition of
10 competition not to lose sight of. So, I mean, I think
11 it's a good question, but it's important to look at that.

12 MS. MENDOZA: If I can just add to that. I think
13 the other point we were trying to make in our testimony
14 is that those challenges go up dramatically when you're a
15 large mattress manufacturer, like a Serta or a Simmons,
16 and that those issues become so significant that it makes
17 it extremely difficult for you to rely on imports. And
18 that's why we were saying that to a great extent, the
19 U.S. producers have a lock on that market.

20 MR. CARPENTER: Okay. I understand that. And
21 that being the case, then, the follow-up question would
22 be, if imports can't compete in terms of delivery
23 schedules, they are being purchased for some reason. So,
24 what -- and a number of you, the witnesses have said that
25 they're basically a backup supplier. Is this a question

1 -- are the imports being purchased because of lower
2 prices or because mattress manufacturers want to have a
3 secondary source of supply? Or can you shed some further
4 light on that?

5 MR. CAMERON: Sure. Let me start out and I think
6 that the witnesses would like to chime in on this,
7 because this is a critical question. Everyone of these
8 producers, at one point actually purchased from other
9 mattress manufacturers in this country. You listed
10 yours. You listed yours. I mean, they purchased from
11 other manufacturers in this country. Those manufacturers
12 were all acquired by Leggett & Platt. And once they were
13 acquired, you kind of have a problem, if you're not the -
14 - dealing as an economic equal in the marketplace. These
15 guys aren't the three Ss, who can say, hey, I want that
16 two hours from now; no problem. These guys ask for it,
17 oh, okay, we'll do the best we can, but there's no --
18 they don't have the same economic power. They're not
19 getting the same prices, we don't think, and these become
20 difficult. So, yes, it isn't about price. It is about
21 having alternative sources of supply. But, why don't you
22 talk about that, Kerry.

23 MR. TRAMEL: If I could take you back to the steel
24 increases of 2003 and 2004, while we never did have a
25 disruption of supply, that was mentioned as a possibility

1 and that was mentioned from Leggett & Platt that this is
2 a contingency that could happen and be prepared for it,
3 in case it does. At that point in time, it really dawned
4 on a lot of manufacturers, such as myself, that if that
5 happened, I've got all my eggs in one basket. And while
6 Leggett has been a fantastic supplier, I really don't
7 feel like turning the keys to my front door of my
8 business over to any of my suppliers. And that's the
9 main benefit that imports have given us, because without
10 that, we have nowhere else to go. And so, that's -- you
11 asked for the primary benefit, there's the primary
12 benefit.

13 MR. CARPENTER: Okay.

14 MR. CAMERON: Martin, you --

15 MR. WOLFSON: Yeah. Firstly, on the South African
16 product, we do keep an inventory, as I did mention in my
17 testimony. We don't keep a large inventory, but we keep
18 an inventory for two reasons. Number one, we've
19 experienced problems with shipping where the vessel sinks
20 or a hurricane closes up the port and you've got a
21 customer waiting for its product. Number two, we, also,
22 have the instance where a person needs something tomorrow
23 or the next day, because something changed and it's out
24 of the norm or out of the situation that he had ordered
25 originally. So, we keep an inventory to give our

1 customers the service that they need and they deserve and
2 that they're paying for.

3 This inventory is obviously something that is
4 difficult to estimate, because of so many different
5 components. So, what often happens, most probably more
6 times happens than not, is that the customer will use an
7 alternative size, because we have it in inventory. He
8 could just as well call Leggett & Platt and buy the
9 product from Leggett & Platt. But, in most instances, he
10 says, look, I'll just go ahead and I'll use an
11 alternative size or an alternative product. That's as
12 far as trying to keep a backup supply.

13 As far as actual manufacturing is concerned with
14 the popular coils, we have lots of customers that can't
15 take full truckloads of innerspring units. He might want
16 a half of truckload of Pockets and a half of truckload of
17 Bonnell units. So, that's another reason we'll keep some
18 inventory, so that we can supply a customer with a mixed
19 load, rather than shipping a full load of the Bonnell to
20 the customer direct from South Africa.

21 MR. CARPENTER: Okay. Thank you, very much.
22 That's very helpful. Mr. Figueroa, I believe you
23 indicated with respect to the questionnaire responses
24 from the Chinese producers that the questionnaire
25 responses we've received are representative. Do those

1 Chinese producers, who have submitted questionnaire
2 responses, do they account for the majority of exports to
3 the United States or, if not, can you further elaborate,
4 in terms of --

5 MR. FIGUEROA: Actually, we -- at this point,
6 we're not sure as to the coverage --

7 MR. CARPENTER: Okay.

8 MR. FIGUEROA: -- of total from China. But, based
9 on conversations with our clients, they've indicated that
10 just the trends that you see in those questionnaire
11 responses are similar of the trends of the industry in
12 China.

13 MR. CARPENTER: I see. Thank you. And one other
14 question for the attorneys. You may want to leave this
15 for your brief. But, if you could just let us know
16 whether you think the captive production provision of the
17 statute applies in this case.

18 MR. CAMERON: We'll respond in our brief, but it
19 doesn't.

20 MR. CARPENTER: Okay.

21 MS. MENDOZA: Because all of the imports are used
22 for the same products. So, basically, you know, whether
23 they're internally consumed or they're sold in the
24 merchant market, they produce the exact same product. So
25 for that reason, we don't think it applies. But, we'll

1 address it.

2 MR. CARPENTER: Thank you. Mr. McClure?

3 MR. MCCLURE: Just one thing. Mr. Wolfson, you've
4 already mentioned imports of Bonnells and Pocketed. In
5 general, from China, is there much -- I mean, this in
6 general, is there much in the way of importation of a
7 pocketed product from China?

8 MR. ENOCH: In units, not much that I'm aware of.

9 MR. MCCLURE: Okay.

10 MR. ENOCH: It's very small relative to Bonnell.

11 MR. MCCLURE: Okay, okay. It's the same
12 experience -- okay.

13 MR. WOLFSON: Mr. McClure, I just wanted to
14 mention, because it was mentioned previously, there's no
15 pocketed coils imported from South Africa.

16 MR. MCCLURE: Oh. I thought I just heard you
17 mentioning --

18 MR. WOLFSON: Our manufacture of all the pocketed
19 coils are in the U.S.

20 MR. MCCLURE: Okay. Thank you for clarifying
21 that.

22 MR. CAMERON: He manufactures here. He imports
23 Bonnells from South Africa.

24 MR. MCCLURE: Okay.

25 MR. CAMERON: No pocketed coils.

1 MR. MCCLURE: Okay. I'm finished.

2 MR. CARPENTER: Well, thank you, very much, panel,
3 for your responses to our questions. We appreciate each
4 and everyone of you being here today to help us out here.
5 At this point, we'll take another short break to allow
6 parties from both sides to prepare their closing and
7 rebuttal statements, about 10 minutes.

8 (Whereupon, a brief recess was taken.)

9 MR. CARPENTER: Welcome back and please proceed
10 whenever you're ready.

11 MR. CORR: All right. Thanks, very much. I will
12 start and then my colleague, Yohai Baisburd, will
13 conclude with remarks on behalf of the Petitioner.

14 First, I'll just note the things that I did not
15 hear denied during Respondents' panel. I did not hear a
16 denial that the subject imports are classified in other
17 categories. Whether or not they're classified correctly
18 is a matter for Customs. The matter for this Commission
19 is just to make sure that we get full data, that we get
20 reporting in all the relevant headings, in which subject
21 merchandise was classified.

22 Second, I heard no denial about the expansion of
23 Chinese capacity much beyond what was predicted by the
24 Respondents in the 421. Again, we cited and we'll
25 provide in the briefs the figure from the Chinese

1 Furniture Association of 15 million pieces. Now, we
2 heard contradictory testimony from the Respondents' panel
3 on the quality of the Chinese manufacturing; but,
4 certainly, it is very substantial and they instead
5 asserted that it wasn't suitable for the U.S. market, or
6 large portions of it. There's not a shred of evidence to
7 support that. And in terms of the cost advantages of the
8 Chinese, I would say that in a labor intensive industry,
9 China has a substantial advantage in labor costs. I
10 think that's generally acknowledged.

11 Also, as the Yuan appreciates, import costs get
12 cheaper. It's a world price, typically denominated in
13 dollars. If the dollar goes down and they're holding
14 Yuan, they're import prices are cheaper. So, that gives
15 them an advantage. I'll also point out, though, that
16 irrespective of whether they'll have a cost advantage,
17 they can dump and that's what they're alleged to be doing
18 here, irrespective of their costs.

19 Finally, I heard no denial of the allegation of
20 substantial underselling and that's very significant
21 here, because other issues, such as just-in-time
22 delivery, et cetera, they go away when prices drop at a
23 certain point. You're competing basically on price and
24 this is a commodity industry.

25 I'll just touch on one other point and that is the

1 assertion that roughly 80 percent of the market is
2 shielded from any import competition. That simply does
3 not square with the facts. We'll say a number of things,
4 in response to that. One, as you heard from our panel,
5 about 75 percent of domestic production is in Bonnells,
6 which compete directly with imports. In terms of the
7 proprietary products, we've provided ample evidence and
8 we'll speak to it in our post-hearing brief. You will
9 see substitution of the proprietary product with the
10 imported Bonnells. Increasingly customers are moving
11 from proprietary product to imported Bonnells, which
12 shows the substitutability and the competition. Finally,
13 we will show evidence that there are lost sales across
14 the range of customers in the U.S. market, large, medium,
15 and small. So, there's full competition. It goes well
16 beyond the 20 percent sector.

17 Finally, we heard the panel blame Leggett & Platt
18 for the closure of Atlas and Saval. I'll say simply, you
19 should read their statements that are contained in
20 exhibits to the petition. Thanks.

21 MR. BAISBURD: I'll let you in on a secret,
22 Leggett & Platt is a big company, okay. But, as you
23 heard from Mr. Salyer -- I'm sorry, Mr. Davis this
24 morning, they're bedding group is only 15 percent of
25 their total sales and innersprings is a part of the

1 bedding group. So, there's more than just -- so,
2 innersprings is less than 15 percent of their sales.

3 A lot of the panel of the ad hoc importers
4 stressed how big Leggett is, how big their mattress are,
5 their bedding group, they're the biggest supplier of
6 mattresses. All of that is a red herring. What the
7 Commission has to do is look at the U.S. industry that
8 produces innersprings and the only relevant aspect about
9 Leggett & Platt before the Commission is its innerspring
10 operations and how they operate in this market.

11 So, let's talk a little bit about that, okay.
12 Imports compete at all levels and against all customers.
13 You heard this morning and we'll provide more detail in
14 our post-conference submission, that some of Leggett's
15 largest customers, those would be some of these national
16 accounts, have started to buy imports and are buying
17 decreasing volumes from Leggett. These would also be
18 customers that are buying foundations and also customers,
19 who are buying other materials from Leggett. But, they
20 are switching to imports. You'll also hear that captive
21 producers, some of the captive producers are, also,
22 decreasing their production and purchasing more imports.

23 Imports say that they're only -- you know, their
24 natural position in this market is about 10 percent.
25 Well, they're already there and they're increasing. So,

1 they said in the 421 case that we're only at about
2 200,000 to 400,000 pieces and our total capacity, this is
3 10 to 12 Chinese exporters, who are competitive in the
4 U.S., their total capacity is 755,000 pieces. Well, the
5 year after the 421 case, China exports in the official
6 statistics was more than double what they said their
7 total capacity was. There are a lot of producers are
8 out. We don't know what the full scope of that is. But
9 what we know is that they've gone from zero percent of
10 the market to over 10 percent. And probably when you
11 factor in the true level of imports, subject imports are
12 probably closer to 15 to 20 percent, if not more, of the
13 U.S. market.

14 And let me address something about going out to
15 getting alternative sources of supply. This is not a
16 case where the U.S. industry was unable to supply U.S.
17 consumers of the subject merchandise. This is not wire
18 rod, where U.S. producers weren't supplying the market.
19 At no point did any U.S. producer that we're aware of not
20 have the capacity or the ability to supply the U.S.
21 market. What the importers did is they went out and they
22 bought low priced dumped imports. If they hadn't done
23 that, we wouldn't have a case. But, that's the reality
24 here.

25 And what's the cause of going out and buying low

1 priced dumped imports? You see it in the questionnaire
2 responses. You see it in the material, in which the
3 economic and financial performance of the U.S. industry,
4 not just Leggett & Platt, but the U.S. industry has
5 deteriorated.

6 MR. RYAN: I'd like to -- this is John Ryan, for
7 Hickory Springs. I'd like to start out with one point of
8 agreement from Respondents' panel, is that we are not
9 Leggett & Platt, to quote one of their Respondents. The
10 purchasers this morning, the mattress suppliers, said
11 that the sole reason that they buy imports or the primary
12 reason is to have an alternative to Leggett & Platt.
13 Hickory Springs would gladly be that alternative and
14 would -- has the capacity and can readily supply the
15 companies that were here today. If price were not an
16 issue, as they alleged, that would be not a problem.
17 But, price is an issue. And it's simply not credible for
18 our opponents to allege that price is not a factor.
19 That's not credible. When you are purchasing -- an agent
20 for a mattress manufacturer and mattresses are 40 percent
21 of your costs, a large portion of the cost of your
22 manufacture, price is definitely a factor. It's not
23 credible to come forward and say we purchase only on the
24 basis of alternative supplier, quality. That's not a
25 credible point.

1 I'd like to sort of do a reality check on a couple
2 of the other points that our opponents raised this
3 morning. That we're shielded. We're shielded from
4 import competition, because we have patents. That's not
5 true. There is no intellectual property shield that
6 protects either Hickory Springs or, to our knowledge,
7 Leggett & Platt from the effect of import competition.
8 We'll have more of that in our post-conference brief.

9 Another point I found entertaining, but also not
10 credible, was that steel prices -- the increase in steel
11 prices greatly affects the Chinese producers, but doesn't
12 affect the U.S. producers. That's not credible either.
13 Steel prices in the United States have gone up as well.
14 Our problem isn't that -- it's not that we're shielded
15 from increases in wire rod cost. We have the same
16 increases going on here. The problem is that we can't
17 increase the price of the final product to reflect those
18 higher costs and, consequently, our profitability data
19 that we submitted to the Commission shows that effect.

20 Another interesting point that our colleagues here
21 alluded to a minute ago is what is the extent of the
22 Chinese industry. And I found it interesting to be able
23 to say -- for our opponents to say definitely this
24 morning that only 10 to 12 producers produce to the
25 quality that could be exported to the United States.

1 One, they said they don't even know how many there are
2 and certainly have never visited them. Well, how can we
3 know whether there's 10 to 12? And already if we just
4 look at the witness list, we've got 10 of those 10 to 12
5 appearing before you this morning. So, according to our
6 opponents, all you need to do is find the other two and
7 you've got the extent of the market. That's not credible
8 either.

9 So, when the Commission moves forward to make its
10 decision, rather than base its decision on conjecture and
11 allegation, we would stick with the facts of the case, as
12 they've been submitted to the Commission, showing
13 increases in import volume at the direct expense of U.S.
14 producers, undeniable huge margins of underselling, and
15 the direct effect on Hickory Springs and the rest of the
16 domestic industry. Thank you.

17 MR. CARPENTER: Thank you, gentleman. Mr.
18 Cameron?

19 MR. CAMERON: Julie did tell me I was allowed to
20 come up here alone. So, if I make any mistakes, you can
21 blame her.

22 First of all, I'd like to thank the panel for your
23 time today. We all understand the time pressures that
24 everybody is under with respect to these investigations.
25 We, frankly, have been very impressed by the work of the

1 staff. I will assure you that we are doing the best that
2 we can to get responses to everything that has been
3 requested and to the extent that we can't. So, we're all
4 doing the best that we can here under these deadlines.

5 A couple of things. I just heard about all the
6 things that I haven't denied. The fact that there is a
7 controversy with respect to classification, we don't
8 deny. It is kind of interesting though, we hear that
9 with respect to the cost advantage in a labor intensive
10 industry that counsel just refers to, I may be wrong
11 about this, but I can swear that having read a Leggett &
12 Platt annual statement and a statement in there with
13 respect to the advantages that they have over the
14 Chinese, what they say is that, actually, they have a big
15 advantage, because they have automated, not labor
16 intensive equipment, and a method of manufacturing.

17 I, also, note that counsel suggested, and clearly
18 I didn't hear correctly what I allegedly said, I don't
19 believe that I said anything about steel prices in the
20 United States not going up. I believe I said that it was
21 a world commodity and that to the extent that a price
22 advantage in China previously existed, that price
23 advantage no longer does exist and, in fact, the United
24 States and China are on a par in the case of steel, which
25 means that there isn't any inherent advantage with

1 respect to that.

2 We heard -- we just heard that domestic
3 competition is not shielded by patents. Really, that's
4 an interesting concept and I'm sure that that will be a
5 revelation to every intellectual property lawyer in this
6 country. I will repeat, they are shielded by their
7 patents. To the extent that people have substitutes that
8 they are competing with, those clearly are not the
9 patented items and they don't command the same price
10 premium that patented items have.

11 It was just suggested to you that it is a red
12 herring. You know, these guys are a big company. No
13 kidding. And to say anything other than that, this is
14 just a red herring. Well, you know, let me just say two
15 things about that. Number one, market dominance is not a
16 red herring. Market dominance is, in fact, a condition
17 of competition that this Commission looks at regularly.
18 And, in fact, we have not, at least in my recent
19 experience, seen an industry that is as concentrated as
20 this one. When you have that, you have an incredible
21 degree of market power and that is what this whole issue
22 comes to. We've heard witnesses this morning talking
23 about the way it was when Leggett & Platt was the price
24 leader. He said, well, you know, they would announce
25 their price increase and then we would follow suit and

1 everything was actually pretty good. Well, you darned
2 right, it's really good, if you're the manufacturer. And
3 that is, in fact, the way the market works. Well, that's
4 great, but that actually connotes a degree of market
5 dominance and, in fact, that is one of the reasons that
6 when all of these other U.S. manufacturers were driven
7 out of the market, that smaller producers sought
8 alternative sources of supply.

9 This is not the typical case that comes before
10 this Commission, which, again, I don't think I've dealt
11 with an industry that is quite as concentrated as this
12 one. This has an extraordinary degree of concentration.
13 That high concentration is not the result of imports. It
14 is a direct result of the business strategy of Leggett &
15 Platt. Leggett & Platt is a very successful company, of
16 that, we have no question, and it is a dominant position
17 in the market. And as noted by one witness, they are the
18 800 pound gorilla in this market, which is one reason
19 that our companies are somewhat astounded that they're
20 even here.

21 Ms. Clark, this morning, asked the witness from
22 Leggett & Platt whether they sell other bedding
23 components to their customers, along with innersprings.
24 Well, I may be wrong, but my recollection is he didn't
25 really give a clear answer to that question. And it's

1 not really clear to me why he didn't, because everybody
2 in the marketplace knows that they have other items that
3 they are selling and that they're giving premiums to some
4 of their customers. But, just so that we can all be
5 clear, the answer that he meant to give to your question
6 was yes, we do, okay. L&P does sell machinery. They do
7 sell components to various customers.

8 After all is said and done, the United States'
9 industry is effectively shielded from a large segment of
10 import competition. The three Ss are a substantial part
11 of the market and to the best of our knowledge, they
12 don't import and are not likely to do so. L&P and
13 Hickory Springs are, also, protected through intellectual
14 property.

15 We heard testimony this morning that one impact of
16 imported springs is at the big mattress companies, the
17 three Ss, who don't import, have had their sales of
18 mattresses impacted by independent manufacturers, who use
19 imported springs. Again, as we've discussed earlier, two
20 things about that. First, those independent mattress
21 manufacturers purchase substantial quantities of springs
22 from U.S. producers, as well. But, secondly, to the
23 extent that innerspring mattress producers have been
24 affected by imported mattresses or that the Sealys and
25 the Sertas and the Simmonses of the world have been

1 affected by either the higher end, non-innerspring
2 mattresses, or by imports of mattresses from China, from
3 Mexico, and other sources, that's not injury caused by
4 innersprings.

5 And why is that important? Because, despite the
6 fact that innersprings are more than de minimis, which,
7 of course, it was the de minimis level of imports in 2004
8 that provoked these guys to bring a case then, so the
9 level of imports isn't necessarily a reason that they
10 bring imports whether it's de minimis or not. The rising
11 above de minimis doesn't mean that the imports are de
12 fact injurious. And that's exactly the case they're
13 making. They say, hey, in 2004, they were negligible,
14 now they're not negligible and, therefore, ipso facto,
15 there must be injury. Well, that doesn't -- that really
16 doesn't work, because the imports have to be fit into the
17 overall conditions of this marketplace and the conditions
18 of competition here. The fact of the matter is this is a
19 strong healthy industry. Leggett & Platt has brought up
20 their competition to make them stronger. The fact that
21 they may or may not have to lower prices to some of their
22 customers or most of their customers, it does raise a
23 question, is it imports or is it something to do in the
24 mattress industry? And, obviously, if it's something to
25 do in the mattress industry, itself, that's not injury

1 caused by imports. And I would suggest to you when you
2 look at the whole market, you can see why, you know, it
3 raises a question. How is that imports can actually be
4 said to be the cause of whatever is going on here?

5 And I would just close with the fact that despite
6 the fact that there may have been some market
7 deterioration, this company, today, and this industry,
8 today, remains very strong and very healthy. And as a
9 result, there is no injury caused by any of the subject
10 imports.

11 Again, I would like to thank you, very much for
12 your time and for your effort. We will do the best we
13 can to comply with all of your questions, as I'm sure the
14 domestic industry, as well. Thank you.

15 MR. CARPENTER: Thank you, Mr. Cameron, and on
16 behalf the Commission and the staff, I want to thank the
17 witnesses, who came here today, as well as counsel for
18 sharing your insights with us and helping us to develop
19 the record in this case. Before I conclude, Mr. McClure
20 has a comment to make.

21 MR. MCCLURE: We will have an APO release this
22 afternoon. That will be on the things that were faxed,
23 slid under the door, whatever, Friday afternoon and this
24 morning that the Secretary's office should be getting in
25 touch with you sometime this afternoon. There are a

1 couple of out-liners out there, that I may have gotten
2 electronically while I've been down here. If I get those
3 after the APO submission, first thing in the morning, I
4 will go ahead and do one more release, so you can have
5 essentially as much as we have for your post-conference
6 submissions that I know will fill in all the holes, all
7 the data issues, and resolve every question that the
8 staff can ever think of. Thank you.

9 MR. CARPENTER: Thanks, Jim. Just a few dates to
10 keep in mind that are coming up. The deadline for the
11 submission of corrections to the transcript and for
12 briefs in the investigation is Friday, January 25th. If
13 briefs contain business proprietary information, a public
14 version is due on January 28th. The Commission has
15 tentatively scheduled its vote on the investigations for
16 February 13th at 1:00 p.m. It will report its
17 determinations to the Secretary of Commerce on February
18 14th and Commissioner's opinions will be transmitted to
19 Commerce on February 22nd. Thank you for coming. This
20 conference is adjourned.

21 (Whereupon, at 1:56 p.m., the hearing in the
22 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Uncovered Innerspring Units

INVESTIGATION NOS: 731-TA-1140-1142 (Preliminary)

HEARING DATE: January 22, 2008

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: October 3, 2007

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 E. 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: John DelPino
Signature of Court Reporter