

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
CERTAIN KITCHEN APPLIANCE) Investigation Nos.:
SHELVING AND RACKS FROM) 701-TA-458 and 731-TA-1154
CHINA) (Preliminary)
)

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 CHINA)

Thursday,
 August 21, 2008

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

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., at the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, presiding.

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MARK A. GRITTON, SR., Vice President, Operations,
Sales & Marketing, SSW Holding Co.
BRAD NALL, Director of Marketing, SSW Holding Co.
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P R O C E E D I N G S

(9:30 a.m.)

MR. CARPENTER: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of countervailing duty investigation No. 701-TA-458 and antidumping investigation No. 731-TA-1154 concerning imports of Certain Kitchen Appliance Shelving and Racks From China.

My name is Robert Carpenter. I'm the Commission's Director of Investigations, and I will preside at this conference. Among those present from the Commission staff are, from my far right, Jim McClure, the supervisory investigator; Joanna Lo, the investigator; on my left, June Brown, the attorney/advisor; Jim Fetzer, the economist; Justin Jee, the auditor; and Ruben Mata, the industry analyst.

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

Are there any questions?

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1 (No response.)

2 MR. CARPENTER: If not, welcome, Mr.
3 Rosenthal. Please come forward for your opening
4 statement.

5 MR. ROSENTHAL: Thank you, Mr. Carpenter.
6 Good morning. My name is Paul Rosenthal of Kelley
7 Drye & Warren. We represent the Petitioners in this
8 proceeding.

9 In many respects this case is similar to
10 several that the Commission has seen in recent years,
11 in fact in recent months. The Commission is already
12 quite familiar with cases involving wire rod and wire
13 products. You've learned about skyrocketing scrap and
14 energy costs and other costs to make wire rod, and
15 you've heard firsthand in these cases about how wire
16 rod costs are being passed on, if possible, to wire
17 rod users.

18 The Commission has also investigated other
19 wire products such as Certain Steel Nails; in fact had
20 a recent decision in that case, and in that case the
21 Commission found that the nail industry was being
22 caught in a cost/price squeeze. Despite rising raw
23 material costs, the nail producers could not increase
24 their prices sufficiently to cover their increased
25 costs.

1 The reason? Dumped imports from China were
2 undercutting U.S. producer prices, causing price
3 suppression, lost sales, declining market share and
4 anemic profits. Those very same facts are present in
5 this case involving Certain Kitchen Appliance Shelving
6 and Racks.

7 The U.S. producers of the subject kitchen
8 appliances and racks are facing higher cost of raw
9 materials, but the domestic industry cannot pass on
10 the entire cost because of low-priced imports from
11 China. This should not be surprising because the
12 customers for these products are a few large,
13 multinational companies that have tremendous market
14 power.

15 Of course, these customers also have their
16 own competitive pressures, and we recognize them, but
17 they have the ability to source their inputs
18 internationally and to extract from their suppliers
19 the lowest possible prices. In this case, they have
20 exercised that capability.

21 The customers have used low-priced imports
22 from China to demand price concessions from domestic
23 wire shelving producers. But, as you'll learn, even
24 when the domestic producers lower their prices to
25 compete with the Chinese, these price concessions have

1 not been enough to stop the large customers from
2 buying from China.

3 The U.S. producers have been forced to
4 choose between accepting unprofitable business that
5 does not cover their cost or to forego that business
6 and lose market share. Unfortunately, the Petitioners
7 have felt the points of both horns of this dilemma.
8 The result has been price suppression, reduced
9 production, reduced capacity utilization, layoffs and
10 dismal profits.

11 The Respondents will undoubtedly claim, as
12 they do in all cases, some non-price reason for the
13 injuries suffered by the domestic industry, but
14 neither demand nor any other extraneous factor
15 explains the domestic industry's condition.

16 As the Commission will learn, there is one
17 compelling reason for the domestic industry's problem:
18 Dumped and subsidized imports from China. By the way,
19 there aren't any other import sources that muddy the
20 picture here. It is imports from China alone and
21 prices of those imports that are the cause of the
22 domestic industry's problem.

23 It will be interesting to see whether the
24 witnesses for the Respondents today attempt to deny
25 that price is the primary factor in their purchasing

1 decisions or that they've switched to imports for
2 reasons other than price.

3 I hope they don't testify that way. The
4 record will show that price is the key, and there's
5 plenty of documentation to support that contention.
6 The Chinese have gained market share based on price
7 alone, and any suggestion to the contrary is simply
8 not credible.

9 The testimony today and the Commission's
10 record will show that an affirmative determination is
11 justified in this case. Thank you.

12 MR. CARPENTER: Thank you, Mr. Rosenthal.

13 Ms. Trossevin?

14 MS. TROSSEVIN: Thank you. Good morning. I
15 appreciate the opportunity to be here before you and
16 hope we have a good conversation about this case; in
17 particular about two fundamental flaws in Petitioners'
18 case.

19 The first is that they have failed to
20 properly define the domestic industry. The second is
21 they are attributing to imports injury that they did
22 not cause.

23 Petitioners have argued in this case for a
24 very carefully crafted definition of the domestic
25 industry, but that definition doesn't capture the

1 industry. It only captures part of it. As you will
2 hear today, looking at the Commission's traditional
3 six factor test, the like product and hence the
4 industry must be defined much more broadly than
5 proposed in the petition.

6 The identified U.S. producers make a host of
7 wire racks and shelves, all of which are produced from
8 the same input material, using essentially the same
9 production processes and have essentially the same
10 use. Nevertheless, Petitioners asked the Commission
11 to focus only on a narrow segment of this industry,
12 certain oven racks and certain refrigeration racks.

13 For example, Petitioners have sculpted the
14 like product to exclude racks and shelves for other
15 appliances such as dishwashers. They have also carved
16 out a segment of what is a continuum of products
17 ranging from racks and shelves for low-end residential
18 to high-end residential and to commercial products
19 with the commercial segment being entirely outside the
20 scope.

21 The industry experts that we have here today
22 will address these issues and will also refute
23 Petitioners' allegations of price and volume effects.
24 Now, Mr. Rosenthal said just a moment ago that he
25 hoped we weren't going to testify to the fact that

1 price was not the only driving force in this industry.
2 I think that's rather remarkable.

3 The people we have here today are
4 representatives of GE and Whirlpool. They are the
5 largest U.S. appliance manufacturers, making products
6 whose names have become synonymous with quality and
7 durability. You don't invest millions of dollars in
8 that type of brand recognition and then ignore quality
9 as a factor. Quality is an extremely important factor
10 in everything these companies do.

11 You will also hear from the horse's mouth --
12 not from me -- what actually drives the sourcing
13 decisions for these major appliance manufacturers, and
14 you will in fact hear that for the very reasons I've
15 just mentioned that quest for quality is an important
16 factor.

17 You will also hear that despite Petitioners'
18 allegations to the contrary of a price/cost squeeze
19 that these producers have themselves faced significant
20 and continuing price increases from the supplying
21 industry before you today.

22 Finally, it should come as no surprise that
23 despite Mr. Rosenthal's wishes to the contrary you
24 will hear confirmation that the current crisis in the
25 housing market and the economy more generally has

1 dramatically affected the demand for major appliances,
2 and this in turn has dramatically affected the demand
3 for the Petitioners' products. It is these market
4 factors that are overwhelmingly the root cause of the
5 situation that both industries face today.

6 So in sum, looking at the industry properly
7 defined, you will hear that there is no reasonable
8 indication of injury by reason of the imports. Thank
9 you.

10 MR. CARPENTER: Thank you, Ms. Trossevin.

11 Would the domestic panel please come forward
12 at this time?

13 MR. ROSENTHAL: Good morning again. I've
14 got a group of industry witnesses that will present
15 what I think will be a comprehensive picture of the
16 industry. I will not spend much time introducing
17 them. I will simply say the following:

18 You're going to hear testimony from
19 representatives of the two major producers of the
20 subject merchandise, Paul Kara and Steven Rollins and
21 Mark Gritton. You'll hear from my colleague, Robin
22 Gilbert, on the like product issue and from Brad
23 Hudgens from Georgetown Economic Services. Also
24 available to answer questions today will be Brad Nall
25 of SSW.

1 The U.S. Steelworkers wanted to testify
2 today, but because of scheduling difficulties were not
3 able to be here, but they wanted to make sure we got
4 on record indicating their interest in this
5 proceeding.

6 With that, I'm going to turn this over to
7 Paul Kara.

8 MR. KARA: Good morning. My name is Paul
9 Kara, and I am president and CEO of SSW Holding
10 Company, Inc. I've held this position since October
11 2000 and was previously associated with the company as
12 both an advisor and as a board of directors member for
13 about 20 years.

14 SSW fabricates, finishes and assembles a
15 wide range of wire, metal and other storage solution
16 products designed to the unique and particular
17 specifications of each of the leading original
18 equipment kitchen appliance manufacturers in the U.S.

19 Through our dedication to innovation and
20 change, a focus on lean operations and a commitment to
21 teamwork, we have developed into a world class
22 supplier over the past 62 years.

23 In the United States we have manufacturing
24 facilities in Fort Smith, Arkansas; Ludington,
25 Michigan; Newport, Tennessee; Madison, Tennessee; and

1 Clinton, Iowa. Presently SSW employs 531 workers in
2 our manufacturing operations producing the subject
3 merchandise. By comparison, just a few years ago at
4 the beginning of the period of inquiry our employment
5 was over 900 workers producing the subject
6 merchandise.

7 These investigations focus on one of our
8 core businesses, kitchen appliance refrigeration
9 shelving and baskets and oven racks. My company and
10 Nashville Wire Products are the two largest domestic
11 producers of these products.

12 Our shelving and baskets are made for
13 original equipment manufacturers of residential and
14 recreational vehicles, refrigerators, freezers,
15 refrigerator/freezers, and our oven racks are made for
16 OEMs of residential and recreational vehicle
17 freestanding ranges and wall ovens.

18 Kitchen appliance refrigeration shelving and
19 baskets and oven racks are products which are designed
20 and produced for specific model applications for
21 specific original equipment manufacturers. In other
22 words, while many refrigerator or freezer shelves and
23 baskets and oven racks have a similar appearance and
24 function, in fact parts are designed and produced to
25 very exacting specifications for particular kitchen

1 appliance models of each OEM. Thus, the parts are not
2 generally interchangeable among different models made
3 by the various OEMs.

4 In short, unlike other products such as
5 automobile tires which can be used across several
6 models of motor vehicles, kitchen appliance
7 refrigeration shelving and baskets and oven racks are
8 made to order for each specific model of each OEM
9 producer.

10 In our petition we have identified two like
11 products consisting of kitchen appliance refrigeration
12 shelving and baskets and oven racks. Ms. Gilbert will
13 address this issue in more detail in her statement,
14 but I would just like to say that SSW is being
15 materially injured and threatened with material injury
16 by unfair imports of both types of products, whether
17 you analyze this along the lines of separate products
18 or together.

19 Kitchen appliance refrigeration shelving and
20 baskets and oven racks are produced in different
21 production facilities using dedicated fabrication,
22 tooling and finishing equipment to produce parts to
23 OEM specifications.

24 The production process for both
25 refrigeration shelving and baskets and oven racks

1 begins with the straightening and cutting of low
2 carbon steel wire of the specific diameters needed for
3 the particular part.

4 The wire is then formed and welded, which
5 includes forming and welding the frames, forming and
6 welding the mats, joining the frames and mats and
7 forming the frame/mat assembly. Depending upon the
8 specific part, sheetmetal trim components may be added
9 during the final stages of the fabrication process. I
10 have brought with me some samples of the parts so you
11 can refer to them as I discuss this process.

12 What we have here are four different typical
13 parts. This is a typical freezer basket, and I'll
14 talk about it in just a moment. We have a freezer
15 shelf, a slide-out freezer shelf, another very simple
16 freezer shelf, and the final product example is an
17 oven rack. We'll leave these with the Commission if
18 you'd like to look at these.

19 To help you understand the OEM
20 specifications, I would like to refer to this
21 particular freezer basket. This basket has a total of
22 16 dimensions that have to be met in order for the
23 basket to meet OEM quality requirements. Those
24 dimensions are specified by the OEM customer, and some
25 tolerances on the dimensions are specified at plus or

1 minus nine one-thousandths of an inch. In lay terms,
2 that tolerance is less than the thickness of three
3 sheets of copy machine paper.

4 After the initial fabrication process, the
5 shelving baskets and racks are then cleaned,
6 pretreated and coated. For refrigeration shelving,
7 the coating is most often electrostatic powder paint,
8 but it can include a range of other finishes. For
9 oven racks, the coating process is most often a nickel
10 plating process, but may also include porcelain or
11 other coatings that can withstand temperature inside a
12 cooking appliance.

13 Finishing requirements are also specified by
14 each of our OEM customers and include appearance
15 requirements as well as the ability to withstand
16 corrosion and abrasion. Most shelving and racks are
17 then packaged and shipped with some shelving and racks
18 requiring further assembly.

19 As you can begin to understand from the
20 prior description of the fabrication and finishing
21 process, the nature of our business -- that is making
22 products to OEM specifications -- is that we sell
23 products made to very exact dimensional appearance and
24 similar specifications.

25 If they are not manufactured in conformance

1 with the specifications, the products are not
2 acceptable to our customers. Meeting these design
3 requirements requires substantial investment in
4 tooling with each new design.

5 To remain competitive, we have invested
6 heavily in making our production facilities as
7 automated as possible through the use of robotics and
8 similar automated equipment. These investments have
9 enabled us to improve the efficiency of our plants and
10 significantly reduce labor cost.

11 Despite these efforts, the Chinese producers
12 have been taking away business from us through
13 aggressive pricing practices in recent years. The
14 Chinese producers have acquired the business by
15 offering the lowest priced shelving, baskets and racks
16 in the market. This is of great concern to us,
17 particularly as our material costs have risen
18 significantly.

19 The majority of our material costs are
20 comprised of low carbon steel wire. As you may be
21 aware, low carbon steel rod and wire prices have
22 increased significantly during the past three years.
23 We need to be able to increase prices sufficiently to
24 cover these cost increases and to regain some measure
25 of profitability on these products.

1 But in the face of the high level of unfair
2 imports from China, we have been unable to do that.
3 The Chinese producers have not fully passed on these
4 material cost increases during this period to the
5 OEMs. We have done everything possible to lower our
6 cost and to keep our production lines full.

7 Most significantly, in 2001, we began
8 implementing the most advanced lean manufacturing
9 techniques at our plant by training our production
10 employees, supervision and management in continuous
11 improvement, Kaizen, 5S, waste reduction, SMED and
12 similar tools to make year-over-year productivity
13 gains.

14 We have rationalized plants and services and
15 have closed three facilities since 2002. The most
16 recent closure was in April 2007 when we shut down our
17 Evansville, Indiana, plant.

18 Our labor unions have committed to long-term
19 agreements with very modest annual wage and benefit
20 increases. Nonetheless, our sustained productivity
21 improvements and continual efforts at reducing and
22 eliminating cost and improving efficiencies still have
23 not allowed us to match Chinese pricing.

24 There's very little we can control. There's
25 little else we can do to eliminate or reduce

1 production cost, and there are virtually no means by
2 which we can get our costs low enough to be able to
3 match the dumped and subsidized prices of Chinese
4 shelving baskets and racks.

5 Prices have been so low that we either have
6 had to forego certain sales to try to maintain profits
7 or we have had to accept the sales at prices that do
8 not cover costs to maintain some market share.
9 Neither choice has been attractive.

10 Our declining financial performance is
11 directly attributable to dumped and subsidized imports
12 of kitchen appliance shelving, baskets and racks from
13 China. Even as consumer demand for kitchen
14 refrigeration appliances has followed the downward
15 housing market over the past three years, imports from
16 China have grown significantly in absolute terms and
17 as a percentage of total kitchen appliance shelving
18 baskets and racks consumed by the OEMs.

19 There is no question that the imports from
20 China undersell us in the marketplace. The
21 underselling has allowed Chinese producers to directly
22 take sales and market share away from SSW. Between
23 2005 and 2008 we lost major commitments by a number of
24 U.S. customers, including some of our top customers,
25 to Chinese imports.

1 Over the past several years our customers
2 have become increasingly familiar with the Chinese
3 product and the willingness of the Chinese producers
4 to supply them at prices far below our own.

5 Because we could no longer afford to lose
6 this business with longstanding customers, we have
7 been constrained to defend our remaining business
8 aggressively by lowering our prices to our current
9 customers. In this way, the effects of each dumped
10 Chinese sale went far beyond the particular
11 transaction to affect virtually our entire sales base.

12 In light of our worsening financial
13 condition and the loss of market share to imports from
14 China, it is impossible for SSW to continue making the
15 investments in equipment, processes and people that
16 are necessary to be sustainable in the long term.

17 We have invested \$15 million since 2005 to
18 maintain our competitive position. We cannot continue
19 to invest in the face of no return on that investment,
20 nor can we continue to match or beat Chinese prices.

21 We are here today because we are convinced
22 that our company is at a crossroads. If the Chinese
23 prices continue at current levels we may be forced to
24 choose not to manufacture kitchen appliance shelving
25 and racks in the United States. We therefore urge the

1 Commission to act to neutralize China's unfair pricing
2 practices.

3 Thank you very much for your attention.

4 MR. ROSENTHAL: Thank you.

5 Our next witness will be Steven Rollins of
6 Nashville.

7 MR. ROLLINS: Good morning. My name is
8 Steven Rollins. I am the president of Nashville Wire
9 Products, Inc. My company was established in 1934 by
10 my grandfather, and my brothers and I joined my father
11 in our family's business 19 years ago.

12 Within the scope of these investigations,
13 Nashville Wire is predominantly a producer of oven
14 racks. Along with SSW, we are the most significant
15 U.S. producers of certain kitchen appliance shelving
16 and racks. We are based in Nashville, Tennessee, and
17 have production facilities for these products in
18 McEwen and White Bluff, Tennessee, in addition to
19 Nashville.

20 Our production process at Nashville Wire is
21 consistent with what Mr. Kara has told you about his
22 companies, so I'll not spend much time on that but
23 rather tell you about how dumped and subsidized
24 imports from China have affected Nashville Wire's
25 business over the last few years.

1 Since 2005, our industry has seen a rapid
2 increase in the imports of subject merchandise from
3 China. These imports have been sold in the U.S.
4 market at such consistently low prices that the only
5 way we have been able to compete is to sell our
6 products without being able to receive a satisfactory
7 return.

8 We have been forced to lower prices and
9 forego price increases in a period in which we have
10 faced rising cost of raw materials, energy and
11 transportation.

12 You can see from our questionnaire response
13 that the direct impact of large and increasing volume
14 of dumped and subsidized imports from China is that
15 our prices have remained suppressed, our profitability
16 has dropped, and investments have been postponed.

17 All of these declining trends are tied
18 directly to the presence of imports from China in our
19 market as demand for oven racks has increased slightly
20 during the period of investigation.

21 Throughout the period of investigation we
22 have been constantly told by our customers that they
23 have a lower cost alternative by sourcing the same
24 product from a Chinese producer. The continuing
25 threat of being replaced by a Chinese producer has

1 eroded our ability to price our products at levels
2 where we have the opportunity to make a reasonable
3 profit.

4 The financial losses that we have incurred
5 by attempting to stay in this market are not
6 sustainable in the long term. While we have had to
7 deal with large increases of input costs and have
8 attempted to adjust our prices accordingly, the
9 pricing of Chinese imports has barely budged.

10 Given that prices for wire and wire rod have
11 increased throughout the world, there's no reason to
12 believe that the Chinese have not faced the same
13 increases in raw material costs that we have, nor can
14 it be assumed that the Chinese have a significant
15 labor cost advantage because this product is not
16 particularly labor intensive in nature. The
17 consistently low prices for imports of oven racks from
18 China are irrational and unjustifiable.

19 As Mr. Kara testified, the majority of our
20 sales are to the large OEMs that produce kitchen
21 appliances. Our sales are produced to order and meet
22 design requirements specified by the OEMs. With the
23 majority of our sales concentrated on large volume
24 shipments, even the loss of a few sales can be
25 detrimental to our business.

1 Beginning in 2007, we lost a significant
2 portion of our business to imports from China. By
3 2008, we have lost more than 40 percent of our
4 business. In less than two years, our market share
5 has been decimated because of dumped and subsidized
6 imports from China.

7 As detailed in the petition and our
8 questionnaire response, we lost all of those accounts
9 solely on the basis of price. The Chinese producers
10 significantly undersold us in all transactions, often
11 at prices well below our cost. We are threatened with
12 losing the remaining business if imports from China
13 continue to undersell us at existing levels.

14 As a result of these lost sales, we have
15 been forced to take drastic measures. We reduced our
16 employment levels from our OEM division by more than
17 25 percent during the period of investigation. In
18 2008, we were forced to curtail production levels by
19 almost 50 percent compared to 2007 levels.

20 We have made our best efforts to take on
21 this challenge and compete directly with the Chinese.
22 We have trimmed our budgets as much as possible. If
23 the high volume of dumped and subsidized imports from
24 China continues to undersell us, take market share and
25 hold down prices, we will be forced to leave the

1 business entirely.

2 The production of oven racks is capital
3 intensive. Unfortunately, our returns in recent years
4 have been far too weak to justify continuing
5 significant investments and improvements to our
6 production equipment. We are committed to remaining a
7 domestic producer of kitchen appliance shelving and
8 racks. While we recognize there's a place for imports
9 in the market, they must not be dumped or subsidized.

10 We are confident that if import relief is
11 produced Nashville Wire can effectively compete and
12 again achieve a healthy return on our investment as we
13 were doing just a few short years ago.

14 Thank you very much for the opportunity to
15 speak to you. I'm happy to answer your questions.
16 Thank you.

17 MR. ROSENTHAL: Thank you.

18 Our next witness will be Mark Gritton from
19 SSW.

20 MR. GRITTON: Good morning. My name is Mark
21 Gritton. I'm the Senior Vice President of Sales and
22 Marketing for SSW Holding Company, Inc. I've been
23 with SSW for 14 years. Before that I had direct
24 professional experience working for a kitchen
25 appliance OEM.

1 In my testimony I will describe how kitchen
2 appliance refrigeration shelving and baskets and oven
3 racks are sold in the U.S. market and describe how
4 imports from China have captured a significant share
5 of our market in just three years.

6 Kitchen appliance refrigeration shelving and
7 baskets and oven racks are sold directly to original
8 equipment manufacturers or OEMs of kitchen appliances.
9 In the United States there are three major OEMs that
10 purchase shelving, baskets and racks. Those are
11 Electrolux, GE and Whirlpool. These three OEMs have
12 approximately a 90 percent share of the U.S. kitchen
13 appliance market.

14 Beginning in 2003, our OEM customers began
15 advising us that China pricing was significantly below
16 our U.S. pricing in order to gain price concessions
17 from us. Our customers threatened to move product to
18 Chinese producers if we did not meet lower Chinese
19 pricing.

20 We did our best to lower our prices, but
21 that was not enough. Beginning in 2004, but most
22 evidently during 2005 to 2008, we lost major amounts
23 of business to imports from China. As detailed in the
24 petition and our questionnaire response, we lost all
25 of that business solely on the basis of price. The

1 Chinese producers significantly undersold us in all
2 transactions, often at prices well below our cost.

3 Virtually all of the sales of kitchen
4 appliance shelving, baskets and racks are produced to
5 order. Each order is produced to specific OEM design
6 requirements for the respective appliance model. The
7 purchase order contracts that are negotiated with the
8 OEMs are usually for large volume shipments that
9 outline the customers' expected annual usage, tooling
10 costs for the project and the terms of sale. Due to
11 the significance of each purchase order, the loss of a
12 single purchase order has a significant volume and
13 financial impact on our business.

14 Because kitchen appliance refrigeration
15 shelving, baskets and oven racks are products made to
16 OEM specifications it is relatively unimportant to the
17 OEM whether they use the product of one manufacturer
18 or another or whether the product is produced
19 domestically or by a Chinese manufacturer.

20 We compete for the same customers on the
21 same products as the Chinese do in the United States,
22 and since the Chinese manufacturers have qualified
23 their products at the OEMs the resultant competition
24 for a purchase order is strictly on the basis of
25 price.

1 We directly trace our financial problems to
2 imports from China in a number of ways. There is no
3 question that imports from China significantly
4 undersell us in the marketplace. That underselling
5 has allowed the Chinese producers to directly take
6 sales and market share away from us.

7 Between 2003 and 2008, we lost business from
8 the vast majority of our U.S. customers to Chinese
9 producers. In addition to the actual lost sales and
10 revenues for shelving, baskets and racks, we have also
11 been hurt by the Chinese practices regarding the cost
12 of tooling for these products.

13 Since there are significant tooling and
14 design costs associated with the initial production of
15 new refrigerator shelving and baskets and oven rack
16 designs, the cost of tooling has been traditionally
17 incurred by the OEM.

18 The Chinese producers routinely charge much
19 less than the typical cost for tooling in the U.S., so
20 the Chinese are either giving away or providing at
21 extremely reduced prices an important element of the
22 cost of the shelving, baskets and racks, effectively
23 reducing the prices for the subject merchandise. If
24 the Commission is going to undertake a proper
25 comparison of the Chinese and domestic pricing of the

1 subject merchandise, the Commission should look into
2 the Chinese practices regarding tooling expenses.

3 Another price-related practice often used by
4 the Chinese is the extension of credit terms that are
5 far more favorable than those offered by domestic
6 producers. I don't know how the Commission factors
7 these favorable credit terms in your pricing
8 comparisons, but it is important for you to get all of
9 the necessary information on this topic.

10 Over the past several years the OEMs have
11 become increasingly familiar with the willingness of
12 the Chinese producers to supply them at prices far
13 below our own. Because we can no longer afford to
14 lose this business at longstanding customers, we have
15 been constrained to defend our remaining business by
16 aggressively lowering our prices to our current
17 customers even when it means we will operate at a
18 financial loss. You can review our questionnaire
19 profit and loss statement to see the devastating
20 results.

21 Our difficulty on the bottom line can be
22 attributed only to imports from China. When we lose a
23 sale to imports it is only to Chinese producers.
24 There are virtually no imports of kitchen appliance
25 refrigeration shelving and baskets and oven racks from

1 any other source except China.

2 If China's pricing continues at current
3 levels we may be forced to choose not to manufacture
4 kitchen appliance refrigeration shelving and baskets
5 and oven racks because we may be forced from the
6 market by low pricing.

7 As indicated in our petition, China has
8 excess capacity to produce the subject merchandise.
9 This excess Chinese capacity, perhaps more than
10 anything, explains why the Chinese industry has been
11 so aggressive in its U.S. sales efforts in the last
12 few years.

13 Between their excess capacity and the
14 Chinese producers' pattern of pervasive underselling,
15 SSW's position will only continue to worsen. To
16 reverse this trend, our industry needs the kind of
17 help only available through the U.S. trade laws.

18 Thank you very much for your attention.

19 MR. ROSENTHAL: Our next witness will be
20 Robin Gilbert of Kelley Drye.

21 MS. GILBERT: Good morning. This morning I
22 would like to address the definition of the domestic
23 like product. As you know, the definition of the
24 domestic like product begins with examining the scope
25 of the case.

1 The scope of this case consists of certain
2 kitchen appliance shelving and racks. The covered
3 shelving is certain refrigeration shelving and baskets
4 for residential and recreational vehicle
5 refrigerators, freezers, combination refrigerator/
6 freezers and other refrigerating or freezing equipment
7 of certain dimensions.

8 These products are comprised of carbon or
9 stainless steel wire in a range of thickness, as well
10 as carbon or stainless steel sheetmetal in a range of
11 thicknesses. The shelving and baskets may be coated
12 or uncoated, may be formed and/or welded.

13 The covered racks consist of certain oven
14 racks, side racks and subframes for residential and
15 recreational vehicle cooking stoves, ranges and ovens
16 of certain dimensions. They are comprised of carbon
17 or stainless steel wire in a range of thickness, as
18 well as carbon or stainless steel sheetmetal in a
19 range of thicknesses. The racks may be coated or
20 uncoated and may be formed and/or welded.

21 Applying the facts of this case to the
22 traditional multi-factor analysis the Commission uses
23 to define the like product, we believe that
24 refrigeration shelving and oven racks comprise two
25 separate domestic like products and industries.

1 The petition sets forth a summary of the
2 like product factors and the differences between
3 certain refrigerator shelving and certain oven racks
4 with respect to each of those factors. I'll summarize
5 them for you here:

6 First, there are differences in the physical
7 characteristics and uses of the two. While both are
8 formed and are welded of carbon or stainless steel
9 wire or carbon or stainless steel sheetmetal, the two
10 products aren't interchangeable because they're
11 produced to distinctly different OEM specifications,
12 and they're coated with different finishing material.

13 For example, for certain refrigeration
14 shelving the coating is generally electrostatic powder
15 paint, but in contrast oven racks are generally coated
16 with nickel, but they also may be coated with
17 porcelain or other coatings that have the ability to
18 withstand high temperatures inside of a cooking
19 appliance.

20 Second, the two products are manufactured on
21 separate and distinct equipment and machinery.

22 Moreover, producers and customers alike
23 perceive the two products as different. Each is
24 designed specifically to meet the size requirements of
25 specific residential or recreational vehicle

1 appliances and is coated with finishes to meet the
2 specific function of that appliance, so customers and
3 producers never view these products as being
4 interchangeable with each other.

5 Likewise, even though OEMs may purchase both
6 types of subject merchandise, their purchases are made
7 for separate and distinct operations within their own
8 companies.

9 I will note, though, that while Petitioners
10 believe it's appropriate in this case to treat each as
11 a separate domestic like product, if the Commission
12 were to instead find a single domestic like product
13 exists we believe it would not have any adverse affect
14 on a finding of material injury or threat of material
15 injury.

16 In addition to the distinctions between
17 refrigeration shelving and oven racks as domestic like
18 products, there are other products that should not be
19 considered part of the domestic like product here such
20 as shelving and racks for commercial appliances for
21 the following reasons:

22 First, they are not designed specifically
23 for residential and recreational vehicle appliances
24 and thus don't meet the requirements of the OEM
25 manufacturers.

1 The OEMs themselves don't perceive the other
2 wire and metal shelving and racks to be substitutes
3 for or interchangeable with the subject merchandise
4 because of differences in physical characteristics
5 such as the size requirements to fit into or meet
6 specific functions of the particular client, so they
7 also don't consider these other products in their
8 purchasing decisions regardless of price.

9 Third, because the subject merchandise is
10 manufactured on dedicated equipment and machinery,
11 other types of wire and metal shelving and racks don't
12 share any commonality with production equipment and
13 employees that make the subject merchandise.

14 Finally, because the subject merchandise is
15 sold to OEMs to meet specific design requirements for
16 each appliance, other wire and metal shelving and
17 racks are not sold through the same channels of
18 distribution.

19 For example, as you heard from our industry
20 witnesses, there are three companies that account for
21 the vast majority of residential and recreational
22 vehicle appliance shelving and racks. That's GE,
23 Whirlpool and Electrolux.

24 But the companies that purchase most
25 commercial appliance shelving are entirely different

1 companies. Those companies are manufacturers of
2 refrigeration and cooking equipment that's used in
3 supermarkets, warehouse clubs, convenience stores,
4 drugstores, mass merchants and food service
5 establishments.

6 In general, neither group of OEMs use
7 residential and commercial appliance shelving and
8 racks to be interchangeable in any way. So as you can
9 see from the summary, there is no legal or factual
10 support for either standing or subdividing for like
11 product definition in this case. Thank you.

12 MR. ROSENTHAL: Thanks.

13 Our last witness will be Brad Hudgens of
14 Georgetown Economic Services.

15 MR. HUDGENS: Good morning. I am Brad
16 Hudgens of Georgetown Economic Services. This morning
17 I will discuss the data on the record concerning the
18 injurious impact of the unfair imports from China on
19 the domestic industry producing certain kitchen
20 appliance shelving and racks.

21 The Commission is required to perform its
22 injury analysis within the context of the business
23 cycle and conditions of competition prevalent in the
24 market. There are several conditions of competition
25 that are pertinent to these investigations.

1 First, as Mr. Kara testified earlier,
2 kitchen appliance shelving and racks are produced to
3 order. Each order is produced to specific OEM design
4 requirements and have multiple critical dimensions
5 that have to be met. Currently the entire market is
6 being supplied by producers in the United States and
7 China that have been qualified by the OEMs to meet
8 specific design requirements.

9 Second, kitchen appliance shelving and racks
10 are products for which the primary determinant of a
11 sale is price. The OEMs purchase both the U.S. and
12 the Chinese products and use both interchangeably.
13 U.S. produced and imported products are sold through
14 the same channels of distribution to the same
15 customers.

16 Nothing can be more supportive of a finding
17 of substitutability between the U.S. produced and
18 Chinese product than the events that have taken place
19 during this period of investigation. China's share of
20 the U.S. market increased as the domestic industry
21 lost sales to unfair imports from China entirely due
22 to price.

23 The domestic industry's customers have
24 increased their purchases from Chinese suppliers
25 because the quality is satisfactory and the prices are

1 significantly lower than the domestic industry. These
2 events demonstrate the importance of price in the
3 purchasing decision and the clear substitutability of
4 domestic and Chinese products.

5 Third, as you've heard from the Petitioners
6 themselves this morning, the industry is in a period
7 of rising cost. Energy and raw material costs have
8 risen over the period, and as a result of high energy
9 prices transportation costs have increased as well.

10 In a period of rising costs, producers must
11 be able to raise prices to cover these costs. As I
12 will discuss in a few moments, the domestic industry
13 has not been able to do so.

14 Fourth, the demand for kitchen appliance
15 shelving racks decreased somewhat over the period of
16 investigation primarily due to the recent declines in
17 the housing market. Earlier this morning the
18 Respondents attributed the domestic industry's injury
19 to this decline in demand rather than the imports from
20 China. Don't believe it.

21 Yes, there was a modest decline in demand
22 over the period of investigation, but there was no
23 decline in demand for China's products at dumped and
24 subsidized prices. In fact, we estimate that imports
25 had more than doubled over the POI. Indeed, instead

1 of being an alternate cause of injury, a decline in
2 the overall market has only served to exacerbate the
3 injury caused by the dumped and subsidized imports.

4 As I will show you this morning, the
5 domestic industry's material injury has been a result
6 of the unfair import competition from Chinese
7 producers. By consistently using aggressive pricing
8 practices, these producers were able to significantly
9 increase their shipments in the U.S. market.

10 As Ms. Gilbert testified earlier, we believe
11 that kitchen appliance shelving and racks comprise two
12 like products, refrigeration shelving and oven racks.
13 Regardless of whether the Commission finds two
14 separate like products or combines the two products
15 into one like product, the data show that imports from
16 China have been a cause of material injury to the
17 domestic industry during the period of investigation.

18 Imports of both Chinese produced
19 refrigeration shelving and oven racks increased
20 between 2005 and 2007 and between the first half of
21 2007 and the first half of 2008. Based on the
22 questionnaire responses received to date, imports of
23 refrigeration shelving increased by more than 200
24 percent during 2005 to 2007, and they have more than
25 doubled during the first half of 2008 compared to the

1 same period in 2007.

2 Imports of oven racks have also increased
3 significantly during the period of investigation by
4 almost 40 percent during 2005 to 2007 and by more than
5 100 percent between the interim period.

6 The vast majority of the responding
7 importers reported an increase in imports from China
8 during the period of investigation. The volume of
9 growth of subject imports has come at the direct
10 expense of the domestic industry.

11 As imports increased during the period of
12 investigation, U.S. producers' market share declined.
13 Accordingly, there can be no doubt that the import
14 volumes of both refrigeration shelving and oven racks
15 from China are significant both in absolute terms and
16 also relative to domestic consumption.

17 The growth in the volume of the Chinese
18 imports has been achieved through aggressive pricing
19 and underselling the domestic producers. Based on
20 lost sales and lost revenue examples that we've
21 submitted in the petition, import prices from China
22 show consistent, significant and widespread
23 underselling of U.S. producers' prices. Imports from
24 China undersold the domestic product by margins of up
25 to 50 percent.

1 Although the pricing data received to date
2 are incomplete, the data show that the most prevalent
3 underselling margins to be in the latter part of the
4 period of investigation as U.S. producers have lost
5 significant high volume sales to imports from China.

6 In a market characterized by intense
7 price-based competition, this degree of underselling,
8 coupled with the increasing volume of subject imports,
9 has led to the price suppression experienced by U.S.
10 producers of both refrigeration shelving and oven
11 racks.

12 It is important for the Commission to put
13 the current pricing trends in context. The domestic
14 industry's prices had already declined significantly
15 as a result of competition with the low-priced imports
16 before the period of investigation.

17 As Mr. Gritton testified earlier, the OEM
18 customers began using Chinese prices as a negotiating
19 tool to gain price concessions from the U.S. producers
20 as early as 2003. Consequently, prices were already
21 at extremely low levels when the period of
22 investigation began.

23 As I noted earlier, the domestic producers'
24 cost began rising over the period of investigation
25 while Chinese imports continued to increase at very

1 low prices and undersold the domestic industry. The
2 pervasive underselling has caused more price
3 depression for some products, but for all products it
4 has meant that the industry could not raise the prices
5 to cover these increasing costs, and that is price
6 suppression.

7 The suppression of U.S. prices has resulted
8 in a significant financial deterioration for both
9 industries producing refrigeration shelving and oven
10 racks. For both industries, the domestic producers'
11 operating income plummeted during the period of
12 investigation.

13 In a period of rising costs, the domestic
14 producers should have been able to pass on those cost
15 increases to the customers, but due to the pervasive
16 underselling by imports from China domestic producers
17 were unable to pass on these increased costs, and that
18 has led to the financial deterioration of the domestic
19 industry.

20 In addition to the significant financial
21 declines, the record also shows a decline in
22 production, shipments and employment, particularly in
23 2008 as imports from China increasingly took away
24 sales from the domestic industry.

25 Now, Respondents may argue that the domestic

1 industry's financial injury is not a result of the
2 suppressed prices, but rather high production cost and
3 manufacturing inefficiency. Nashville Wire and SSW
4 have done everything possible to control those rising
5 costs and are among the most efficient producers in
6 the world. Both companies have invested heavily in
7 plant and equipment to improve production efficiency.

8 As Mr. Kara testified earlier, SSW has
9 implemented several measures to make the plant more
10 efficient such as a major capital investment, a cost
11 reduction program which included the rationalization
12 of several production facilities and the termination
13 of about 40 percent of its workforce between 2005 and
14 2008.

15 Mr. Rollins testified also that Nashville
16 Wire was forced to cut manufacturing and employment to
17 reduce cost in 2008. Nashville Wire has also invested
18 heavily in capital improvements to improve production
19 efficiency.

20 Yet for all of the capital improvements and
21 cost reductions the U.S. producers have not been able
22 to compete with imports from China because these
23 imports have been sold at such low prices in the U.S.
24 market that their prices are often below the domestic
25 industry's production cost. There's no amount of

1 efficiency gains that would enable the U.S. producers
2 to compete against these low priced imports.

3 In summary, the industries producing
4 refrigeration shelving and oven racks are being
5 materially injured as a result of low-priced imports
6 from China. As these imports surged into the U.S.
7 market during 2005 to 2008, the U.S. industries
8 experienced declining market share, underselling by
9 the subject imports, lost sales and revenues and a
10 significant price depression.

11 Despite rising raw material and other costs,
12 U.S. producers were unable to raise prices due to the
13 intense competition with low-priced imports. As a
14 result of the price depression, the U.S. producers'
15 financial performance worsened. Consequently, the
16 U.S. producers' material injury is directly linked to
17 the surge in low-priced imports from China.

18 Thank you for your attention.

19 MR. ROSENTHAL: That concludes our
20 testimony.

21 I've spent most of my life looking into
22 refrigerator interiors, and I consider myself
23 something of an expert in that area, but we are
24 fortunate this morning to have real experts on that
25 topic, and I would welcome the opportunity for you to

1 question them.

2 MR. CARPENTER: Thank you very much, panel,
3 for your testimony. We really appreciate it.

4 We'll begin the staff questions with Ms. Lo,
5 the investigator.

6 MS. LO: Hi. Thank you for your testimony
7 today. This is Joanna Lo, Office of Investigations.

8 I wanted to understand better the way the
9 production process works for the two separate like
10 products. You state that each product is made
11 separately because of the OEM dimension demands on the
12 product, but is it made in two separate facilities?

13 Is it possible after one distinct OEM run,
14 for example, to make another product using the same
15 equipment?

16 MR. KARA: In fact, we do not make any
17 refrigeration product at all at the plants that are
18 dedicated to oven racks, nor do we make any oven racks
19 at the plants that are dedicated to the refrigeration
20 shelving and baskets.

21 The production equipment is not
22 interchangeable. The processes are similar in the
23 sense that we're welding in forming wire, but the
24 finishing systems are completely distinct, and the
25 oven rack product tends to be far, far more automated

1 and it's simply not possible to use that equipment to
2 make the refrigeration shelving or baskets.

3 Ms. Lo, I hope that answers the question,
4 but, Mark Gritton, if you'd like to comment on that?

5 MR. GRITTON: No. Actually I think that
6 says it very well. The only thing that I might add is
7 that in the manufacturing equipment in order to
8 produce the products in the quantities required at the
9 cost levels required it requires a high degree of
10 specialization in that equipment, so therefore that's
11 why it's not interchangeable.

12 MR. ROLLINS: From Nashville Wire's
13 perspective, the same situation. We have separate
14 facilities for the range product from the
15 refrigeration product, and all the equipment is
16 dedicated specifically.

17 Oven racks, for example. We have dedicated
18 automation equipment for oven rack type product
19 because of the dimensions and the configurations.
20 Although, you know, there might be some that are
21 similar, we just haven't had an experience where we
22 could run a refrigeration rack down like an oven rack
23 line.

24 Also the finishing systems. An oven rack
25 typically has a nickel finish applied to it whereas a

1 refrigeration shelf has a powder coat finish applied
2 to it.

3 You know, within each distinct facility we
4 try to streamline the production flow as much as
5 possible. It just makes sense to organize our
6 business in that fashion.

7 MS. LO: I have a follow-on to that. Do you
8 make other products such as dishwasher baskets or
9 shelving in either facility?

10 MR. KARA: No. We are not involved at all
11 in the production of dishwasher baskets. We also do
12 not produce any commercial refrigeration or cooking
13 products in the U.S. It's completely separate
14 products, different distribution channels.

15 In the case of dishwasher baskets, it's an
16 entirely different set of fabrication equipment that
17 would be completely unsuitable for either oven rack
18 production or freezer basket or refrigeration shelving
19 production.

20 MR. ROLLINS: Likewise for us. I mean, we
21 certainly have had inquiries from our customers
22 regarding production of dishwasher baskets, for
23 example, since they view us as a wire fabricator.

24 Certainly if we had the opportunity to do
25 that with the equipment that we have we would

1 certainly explore that and attempt to do that, but
2 again it's a very separate, dedicated type of
3 equipment for that product that we would have to make
4 the capital investment in. It's separate and
5 distinct.

6 I will comment that Nashville Wire does
7 participate in the commercial refrigeration market,
8 but again there that product runs on separate
9 equipment from the domestic refrigeration production
10 and it's a much smaller market for us and a very
11 different market than the domestic refrigeration.

12 MS. LO: Can you expand a bit more on the
13 distinction between the two markets?

14 MR. ROLLINS: In general terms, a commercial
15 refrigeration shelf will be much larger dimensionally,
16 and it has a very different application. It's going
17 into a convenience store or supermarket type of
18 environment.

19 You have a completely separate set of
20 customers that you're selling to, so it's just a
21 different market. There's more variation. The
22 volumes are quite a bit lower, so it doesn't have
23 probably the same level of automation that the
24 equipment for the residential market would.

25 MR. GRITTON: That would be a point that I

1 would emphasize is that the volumes are so much lower,
2 considerably lower, that the product is produced using
3 completely different machinery and methods.

4 MS. LO: I have another question related to
5 this. Are you aware of similar types of business
6 modeling for other producers, U.S. or Chinese, in this
7 industry?

8 MR. ROSENTHAL: Could you expand on that
9 question? What do you mean by similar types of
10 business modeling?

11 MS. LO: Whether the other U.S. producers
12 also specialize just in oven racks or make both. Why
13 is there not a specialization in one type of product
14 versus the other, for example?

15 Some of this is BPI information, so if you
16 could think about that perhaps in the brief?

17 MR. ROSENTHAL: I'm still not 100 percent
18 sure that I understand your question, so maybe you
19 want to just follow up in writing on that one so we
20 answer precisely what you're asking.

21 MS. LO: Thank you.

22 MR. ROLLINS: I don't mind commenting
23 somewhat towards that.

24 I guess to phrase how I understand the
25 question, you're asking about other producers and do

1 they typically specialize in certain product markets
2 or categories or areas maybe to a degree.

3 I think certainly most people sort of pick
4 their niches where they're going to be successful, and
5 most companies that sell to the OEM appliance
6 manufacturers like GE, Electrolux and Whirlpool -- I
7 know, for example, with the dishwasher baskets that
8 you brought up there are companies that specialize in
9 the production of that product, and that's pretty much
10 uniquely what they do.

11 In our situation, in SSW's situation, we
12 have chosen to sort of specialize within the niche of
13 the refrigeration shelving and the oven shelving
14 production mainly because once you sort of pick your
15 place there's significant capital investment that's
16 made and the equipment is so specialized for that
17 product category that it becomes a situation where you
18 are where you are in essence.

19 MS. LO: Thank you. That's all my questions
20 for this.

21 MR. CARPENTER: Ms. Brown?

22 MS. BROWN: Thank you. Good morning. I'm
23 June Brown with the Office of General Counsel. Thank
24 you very much for your testimony. It was very
25 helpful. I have a couple more questions on the like

1 product. I'm trying to understand it a bit.

2 With respect to oven racks and refrigerator
3 shelving that is made from steel wire or metal that is
4 used for residential or recreational vehicle use, does
5 the scope cover all sizes and types or are there sizes
6 and types that are not in the scope?

7 MS. GILBERT: Yes. In the petition itself
8 and in some follow-up correspondence we have submitted
9 to the Department of Commerce we have given a lot more
10 detail which I didn't get into here today for purposes
11 of this conference, but we have certain dimensional
12 definitions within the scope language itself so that
13 we're not intending to cover all types of shelving and
14 racks but only those that are used in residential and
15 recreational vehicles --

16 MS. BROWN: Right, but within the
17 residential and recreational.

18 MS. GILBERT: Within those, only of certain
19 dimensions.

20 MS. BROWN: Okay. So, for example, Mr.
21 Rollins, you make mostly oven racks but you make more
22 oven racks for residential use than recreational
23 vehicle use that are covered by the scope here, is
24 that correct? Maybe you can give me an idea?

25 MR. HUDGENS: Could I just make one

1 clarification? So the scope is written to include all
2 refrigeration shelving and oven racks that are used in
3 residential and --

4 MS. BROWN: Right. No, I understand that,
5 but for those that are used for residential and
6 recreational vehicle use, are there other sizes and
7 types made from the same steel wire and steel sheet --

8 MR. ROSENTHAL: The answer is no.

9 MR. HUDGENS: That are not included in the
10 scope?

11 MS. BROWN: Those are not in the scope,
12 other sizes and types.

13 MR. ROLLINS: No.

14 MR. HUDGENS: Right.

15 MS. BROWN: No, there aren't any. So, Mr.
16 Rollins, what you make as far as oven racks for
17 residential, recreational vehicle use, for example,
18 from steel wire and steel metal is covered here?

19 MR. ROLLINS: It's completely covered within
20 that, yes.

21 MS. BROWN: Okay. That's what I'm trying to
22 figure out. Okay. But things made for other
23 appliances are not covered. You said you don't make,
24 for example, shelving for or baskets for dishwashers.
25 Do you make things for other appliances that's not

1 covered here besides ovens and refrigerators?

2 MR. ROLLINS: No, we don't.

3 MS. BROWN: No. And Mr. --

4 MR. GRITTON: No, we don't.

5 MS. BROWN: And, Mr. Kara, do you?

6 MR. KARA: No, we don't.

7 MS. BROWN: So you're basically in
8 refrigeration shelving and oven racks?

9 MR. KARA: We are in that business. We're
10 also in some other business segments that are
11 completely outside of this. For example, we make HVAC
12 inlet and discharge grills.

13 If you look at a home air-conditioning unit,
14 oftentimes you'll see a very large, sometimes as much
15 as, you know, nine feet of a wire grill that's on the
16 exterior of that to protect the condensers and also
17 fan guards on the top that are called discharge grills
18 that protect the fan blades from debris and so forth.

19 In terms of appliance, this is what we
20 produce.

21 MS. BROWN: This is it. Okay. Thank you.
22 I think what -- go ahead. Ms. Lo's question kind of
23 triggered a question in my mind. Maybe it's what she
24 had in mind.

25 Would other domestic producers that are

1 making oven racks and refrigeration shelving that's of
2 the type and size within the scope, would they make
3 for other appliances or would they be concentrating
4 on, would they be limiting themselves to the oven and
5 refrigeration products, or do you not know that?

6 MR. ROSENTHAL: If there were any other
7 significant producers of the subject merchandise they
8 would have been named, so what you have are the known
9 producers of the product that we're concerned with
10 today.

11 MS. BROWN: Okay. Thank you. Now, are the
12 specifications so exact that, for example, if you make
13 an oven rack for a particular OEM for a particular
14 oven another OEM could not use that same oven rack,
15 you'd have to manufacture a completely different
16 product?

17 MR. GRITTON: That's correct. The racks are
18 designed to interface with the inside of the oven in
19 order to hold the racks in place, and make sure they
20 slide properly, and fit properly and are safe, so
21 based on that, the interaction with other components,
22 each rack is its own entity and they're not
23 substitutable, not interchangeable.

24 MS. BROWN: Okay. Thank you. Do the
25 domestic producers import any of the subject product

1 or purchase imports, and, if so, could you give us
2 some idea of how much that is and why you do that?

3 MR. ROSENTHAL: I don't think we'll get into
4 how much because it's business proprietary, but I
5 think the witnesses are happy to acknowledge why.

6 MS. BROWN: Okay. Thank you.

7 MR. GRITTON: Yes. I'll take that first on
8 behalf of SSW. Actually, we acquired a company a few
9 years ago that was already engaged in the process of
10 importing some oven racks. As we integrated that
11 business, we chose to continue that practice.

12 Based on the fact that we looked at the
13 pricing we were unable to produce those products in
14 the United States for the pricing levels that were
15 demanded by the customers who were buying them so it
16 was necessary for us to continue that importing
17 activity.

18 We have also been strongly encouraged, we've
19 been under I would even say a great deal of pressure
20 over the past few years from our customer base to
21 import and import product from China so that we could
22 pass along lower pricing. So it's been a matter of
23 necessity that we have, you know, had to have some of
24 that activity.

25 MS. BROWN: Thank you.

1 MR. ROLLINS: Our experience is similar to
2 that. There's a small percentage of product that's
3 within the scope that we do import.

4 Again, there's a situation where there's a
5 tremendous amount of pressure from our customer base
6 that, you know, when the request has been made that,
7 you know, do you have the capability to source
8 product, and they would tell us, you know, you can
9 either, you know, it may be a case by case situation
10 with specific parts that we're quoting and say, you
11 know, or an existing part that we have in our program,
12 there's always pressure to reduce cost, reduce the
13 price.

14 We've been presented with some scenarios
15 where we can take the option of sourcing the product
16 to get the price that's needed or just simply losing
17 it altogether. In some situations where we did not
18 have the ability to price the product that we're
19 selling at the level that the customer wanted we're
20 able to source the product and combine with our
21 domestic production and sell to those OEMs.

22 MS. BROWN: Thank you. Any other?

23 MR. KARA: With respect to SSW, I'd like to
24 just point out that since we inherited that situation
25 with the purchase in 2002 of our subsidiary, American

1 Appliance Products, which Mark Gritton was talking
2 about, our imports have actually declined during that
3 period of time, and especially during the period of
4 investigation. Thank you.

5 MS. BROWN: Thank you. If you can expand a
6 bit in your postconference brief on the quantities,
7 we'd appreciate it. Thank you. Mr. Hudgens, you
8 talked about conditions of competition for the
9 industry or industries. If the Commission were to
10 find two industries, are there differences affecting
11 with respect to the refrigeration shelving and the
12 oven rack?

13 MR. HUDGENS: There's one significant
14 difference between refrigeration and oven racks and
15 that is the demand. Over the period of investigation
16 we've seen a decline in demand of refrigeration
17 shelving, but in terms of oven racks, the demand,
18 particularly between 2005 and 2007, has shown an
19 increase.

20 There's been some slight decline in 2008,
21 but we believe that there's been more of a drop in
22 demand for the refrigeration shelving while oven racks
23 there's been an actual increase.

24 MS. BROWN: Thank you. I just have one more
25 question. We were kind of curious why or how the

1 decision was made for you to bring your petition
2 claiming one scope, a single scope, of subject
3 merchandise, and yet, two like products. Do you have
4 anything to say on that?

5 MR. ROSENTHAL: In my experience, it's not
6 unusual, certainly not unheard of, and in the good old
7 days the Commerce Department would often find a
8 different class or kind of merchandise to match the
9 like product finding at the ITC. So you may not have
10 seen it much in the last couple years, but it's
11 certainly been a common practice in years gone by.

12 Commerce has a little more hesitancy to do
13 it these days but it's not at least that unusual.
14 There's certainly been decisions by the Court going
15 back to the Hostedum case that Ms. Gilbert and I
16 worked on, and if I'm recalling that correctly, making
17 clear that the like product decisions by the ITC
18 didn't necessarily have to align with the Commerce
19 determination with respect to class or kind.

20 MS. BROWN: Thank you very much. I don't
21 believe I have any further questions at this point.

22 MR. CARPENTER: Mr. Fetzer?

23 MR. FETZER: Thank you. Jim Fetzer, Office
24 of Economics. Thanks for joining us this morning.
25 It's really helpful, especially on new products, to

1 get to figure out what's going on, so I do have a few
2 questions. First of all, there's been a lot of
3 discussion by this panel and also in the petition
4 about rising material costs.

5 I didn't see anywhere a reference to the
6 degree of how much it's gone up by. Can you give a
7 sense without giving away, you know, BPI information
8 how much raw material costs have gone up during POI or
9 if there's been any swings at particular periods? You
10 could respond in posthearing if that's more
11 appropriate.

12 MR. KARA: Without talking about specific
13 pricing, it's gone up over 100 percent during the
14 period of investigation. Well, I don't have a
15 calculator but it's perhaps significantly more than
16 100 percent during that period. More than doubled.

17 MR. FETZER: Okay. Thanks. Thank you. In
18 terms of looking at raw material costs, the raw
19 material here I assume is the wire rod. If we were
20 going to look at any public pricing, should we look
21 at, you know, prices for that or for the scrap that is
22 used to make the wire rod? What would be the more
23 appropriate thing to look at?

24 MR. GRITTON: We would say wire rod.

25 MR. FETZER: Okay.

1 MR. KARA: I'm sorry, Mr. Fetzner, also drawn
2 wire is what you would have to look at because it's
3 actually wire that is used -- rod is just the, you
4 know, initial, it's the starting point. The rod's got
5 to be drawn down to the appropriate diameter wire.

6 MR. FETZER: Okay. So drawn wire would be?
7 Okay. Everybody agrees on that one. Just want to
8 make sure we're looking at the right thing because,
9 you know, at a certain point what is a raw material
10 is, you know, going to be a point of contention.
11 Anything further on that or we're okay?

12 (No response.)

13 MR. FETZER: In terms of demand, obviously
14 demand for oven racks and kitchen racks are of a
15 certain -- the products we're talking about here
16 depends on demand for refrigerators and ovens. If we
17 look at the data, would that be pretty much
18 proportional?

19 So if refrigerator and oven demand went up
20 by 10 percent, would the demand for racks go up by 10
21 percent, or would it be pretty close to that?

22 MR. GRITTON: I would say that the demand
23 for refrigeration products is fairly closely tracked
24 with housing. On the other hand, as I think Brad
25 Hudgens pointed out in his testimony or in an answer

1 to a question earlier, there's actually been an
2 increase for demand for oven racks during the period
3 of investigation.

4 We attribute that primarily to a change in
5 product mix toward a more premium products, finished
6 goods, which actually include more racks per range, so
7 is one strong contributing factor.

8 MR. FETZER: Okay. So it's not necessarily
9 more people are buying ovens or more ovens being sold,
10 it's just that they may be bigger and there's more
11 racks going into them?

12 MR. GRITTON: There's more racks in them.
13 That's correct.

14 MR. FETZER: Okay. I know housing was
15 thrown out there as one of the driving things that you
16 might look at in terms of demand. Are there any other
17 special events, like Hurricane Katrina, for example?
18 Did that have any impact on our data that we would
19 want to take a look at? Were there any spikes for
20 sales during the POI?

21 MR. GRITTON: No, I would not say that we
22 noticed significant lifts in a case like that.

23 MR. FETZER: Okay. Any other factors that
24 you guys can think of since I guess we're looking at,
25 what, since 2005, that would have affected demand?

1 No? Okay. I guess quality. I know that, you know,
2 Respondents in their opening statement said quality is
3 very important.

4 Most of the testimony from this panel has
5 been that price is the main reason for injury. There
6 was some testimony that the Chinese had qualified, I
7 believe by Mr. Gritton, that the Chinese were
8 qualified.

9 So is this a case where maybe quality
10 matters but the product is interchangeable, or quality
11 matters up to a threshold and it's not important to
12 have the best quality but just to meet a threshold and
13 it just happens that what's being sold out there has,
14 I mean, if you're able to make a sale, then you have
15 to have that quality anyway?

16 MR. GRITTON: I think that's a pretty good
17 assessment of the issue. The quality standards in our
18 industry are very high and our customers, for good
19 reason, hold us to very high standards of quality.

20 However, as the Chinese importers have
21 become qualified to produce product and supply product
22 at the same levels of quality, the determining factor
23 in purchase decisions in the awarding and placement of
24 business has been price.

25 As a matter of fact, we were remarking

1 yesterday, and this is some anecdotal information, we
2 were having a conversation about the uncanny
3 similarity between meetings that we had had, Paul and
4 I, with some senior level procurement executives with
5 a couple of our major customers.

6 Within a short period of time of each other
7 they called us in and sat us down and said, hey, look,
8 you know, we really like you guys as a supplier,
9 you've been a reliable partner for many years, you
10 supply a quality product, you ship your product on
11 time, you bring us innovations that help us to improve
12 our bottom line by increasing value to our customers,
13 and we really appreciate all that, but the problem is
14 we have all this pricing from China on the products
15 that you supply and it is just too low to be ignored,
16 so we have to do something.

17 You know, if you can't meet this pricing or
18 if you're not able to adjust your pricing, we don't
19 know about your future but, you know, we appreciate
20 everything you've done for us, but this pricing is too
21 low and we're going to have to do something. It was
22 again uncanny the similarity in that message from
23 different places and the consistency of the message.

24 MR. HUDGENS: I might just also add that the
25 record shows that there are multiple Chinese producers

1 that are qualified for the three OEMs.

2 MR. FETZER: Okay. Thanks. I appreciate
3 that.

4 MR. ROLLINS: I could just second his
5 comments. I mean, without a doubt, the quality
6 standards are extremely high for these OEM
7 manufacturers, and they make that clear to us, and
8 they have high expectations.

9 With the lost business that we've
10 experienced in the communications and the feedback
11 that we get from our customers, basically, they tell
12 us that there's not any deficiencies as far as
13 service-delivery-quality issues; you're just being
14 beat significantly by pricing. A lot of times, they
15 won't say, specifically, China, but they say "overseas
16 sources," but we ultimately find out it's a Chinese
17 source.

18 MR. FETZER: Okay. Thanks. Would the same
19 type of thing apply to the brand-name issue that the
20 Respondents brought up, in terms of what Mr. Gritton
21 said, in terms of brand name being important.
22 Certainly, I think it's important on the appliances.
23 I don't know. That's going in another direction, but,
24 I mean, is brand name important, or is it something
25 that has just been trumped by price?

1 MR. ROSENTHAL: Are you talking about brand
2 name of the racks and baskets?

3 MR. FETZER: I'm assuming that that's what
4 the Respondents were talking about this morning, yes.

5 MR. ROSENTHAL: No. Actually, let me give
6 you my interpretation --

7 MR. FETZER: Okay.

8 MR. ROSENTHAL: -- because I think what they
9 were saying was that their brand names, the
10 Whirlpools, the GEs, are so important and are so
11 associated with quality, they insist upon the highest-
12 quality components, including racks and baskets and
13 shelving, and that's why Ms. Trossevin was taking
14 issue with my statement that price was paramount.

15 In fact, I don't disagree with what she said
16 concerning those companies' reputations and their
17 desire to be associated with high quality and demand
18 high quality. What you heard from Mr. Gritton and Mr.
19 Rollins is perfectly consistent with that. The
20 customers demand high-quality shelving and racks and
21 baskets for their product, and, in fact, all of the
22 suppliers who qualify deliver that quality, and then
23 once you qualify and have demonstrated that you can
24 deliver quality product, then the primary issue, the
25 only issue, after you qualify is price.

1 What you also heard testimony on, just a
2 minute or two ago, is that the customers that we've
3 heard about have not complained, nor could they
4 complain, about the quality of the domestic producers
5 sitting at this table. What they have said to them
6 is, We love you, you do a great job, you give us high
7 quality, you give us great service, but you've got to
8 match the prices of the Chinese, or else we're buying
9 from the Chinese, and, in fact, they have done that.

10 MR. FETZER: Okay. Thank you. In this
11 industry, is diversification of suppliers, supply
12 base, important? Your customers indicate that they
13 would like to have multiple sources of supply, you
14 know, in case they are not able to get supply from one
15 producer. Is that much of an issue? They probably
16 have a better idea, and we'll probably hear about that
17 this afternoon a little bit more, but just to get a
18 sense if that has been communicated to you at all.

19 MR. KARA: The fact of the matter is that
20 the pendulum seems to swing back and forth every
21 couple of years between consolidating the supply base
22 as a stated objective of our customers, and they tell
23 us that in various supplier meetings that we have
24 where they bring in a whole group of suppliers for
25 their products, and when they consolidate, the next

1 tactic is to enter into a long-term agreement, and the
2 conditions of the long-term agreements are to reduce
3 pricing over the period of the long-term agreement,
4 and then the pendulum starts to swing back to having
5 multiple suppliers at that point.

6 So it depends on what year we're talking
7 about as to what the state objective is.

8 MR. GRITTON: The only thing that I might
9 add to Mr. Kara's response is that we have not lost
10 business because we were unable to supply product.
11 We've never lost a piece of business because we
12 couldn't supply. We've not lost business because our
13 quality was not good enough.

14 What we have lost business because of is
15 price. We have had our production replaced by Chinese
16 product, which is priced far below ours.

17 MR. FETZER: Okay. Mr. Kara, in terms of
18 that pendulum, how is that, let's say, since 2005?
19 How has it moved, or where is it at right now?

20 MR. KARA: Well, the pendulum, last fall,
21 with a particular customer, was to continue a long-
22 term agreement with us as a single source, if you
23 will. When we indicated that we were unwilling to
24 meet the Chinese pricing, the lower Chinese pricing,
25 and were unable to enter into a long-term agreement

1 that would do that, the pendulum quickly swung to, "We
2 need multiple sources."

3 MR. FETZER: Okay.

4 MR. KARA: So it's very situational.

5 MR. FETZER: Okay.

6 MR. ROLLINS: From my experience, you know,
7 when you're talking with these purchasing people with
8 the major OEMs, the conversations are pretty one
9 dimensional. Obviously, the quality threshold, the
10 delivery; they have very high expectations, and once
11 you're there, that's great, and they certainly want to
12 qualify and bring other people in potentially, but
13 there is so much pressure on them to reduce costs and
14 to scour the earth and find where there's
15 opportunities to save money, and it seems like they
16 are always landing in one place.

17 That gets back to us, you know, "How do you
18 want to respond? You're great, but we've got this
19 better opportunity out there," and they are taking
20 advantage of it more and more, and it's price.

21 MR. FETZER: I appreciate that. Mr.
22 Gritton, earlier, you brought up an issue about tool
23 costs and credit terms being offered by the Chinese.
24 I don't remember this being in the petition or
25 anything or something we collected data on or asked

1 questions about, but I just want to get a sense of how
2 important that is, and you suggested that the
3 Commission needs to take that into account, and if
4 there's any suggestions on how we would do that.

5 MR. GRITTON: Yes. It's a very important
6 issue. It is something that has come up in our
7 discussions, but all of these economic factors
8 contribute to, number one, dropped price suppression
9 of our price because the Chinese suppliers offer
10 tooling of new products, for example, for a fraction
11 of the amount that tooling costs for us to supply the
12 product domestically.

13 So, therefore, in the overall landscape,
14 that has downward pressure on our ability to compete
15 with that package of pricing at low pricing and low
16 tooling, so it drives price suppression.

17 Also, it's an economic factor that wasn't
18 show up in their piece price, for example. If you
19 said, "Well, you bought this from Supplier A, and you
20 bought this from Supplier B," and all you looked at
21 was the unit price for the part, the impact of that
22 low tooling would not show up in a comparison of those
23 two unit prices. Is that more clear?

24 MR. FETZER: That makes sense. I just want
25 to make sure. It's one thing, if we're talking about

1 their cost of production, which is more of a Commerce
2 issue, I guess, or if there's tools that the purchaser
3 has that are being, you know, that there is some kind
4 of side payment going on. That's what I'm trying to
5 distinguish. Is that something we need to --

6 MR. HUDGENS: If I might add, the
7 distinction between tooling costs and other production
8 costs is that the OEM usually purchases the tooling
9 along with the new design and a new order, and what
10 Mr. Gritton is indicating is that many times the
11 Chinese are not fully capturing all of the costs of
12 that tooling in the price of their tooling or, in some
13 instances, not even charging for the tooling at all.

14 MR. FETZER: So when the Petitioners make a
15 sale, they are actually paying -- the OEM is giving
16 them money for the tooling. How does it work?

17 MR. HUDGENS: I think that Mr. Kara can
18 explain that better.

19 MR. KARA: Yes. With new products,
20 typically there is a purchase order that's issued for
21 the tooling to make that product and then a purchase
22 order that is issued for the actual expected purchase
23 of the parts with the expected annual usage, and then,
24 as the demand is there, you make and deliver parts
25 against that blanket purchase order. So the tooling

1 is a separate and distinct charge that's made to the
2 OEM in that situation. Does that --

3 MR. FETZER: Okay. So the OEM is paying for
4 the tooling just sort of as an up-front cost, so they
5 make sure they order more than one rack or something
6 like that.

7 MR. KARA: Exactly right.

8 MR. GRITTON: Yes. That's correct. I
9 guess, to further, it may be helpful to explain, I
10 guess, there are three main components of a
11 transaction for a new product or a new project. There
12 is tooling, there is the unit price for the parts, and
13 then there are also the credit terms on which you sell
14 the product, if it's 60 days or 90 days or 30 days or
15 whatever.

16 It's been our experience, and our
17 understanding, that the Chinese are offering far
18 longer credit terms than we're able to offer. So,
19 therefore, that's another area of it's kind of a
20 hidden price reduction, if you will, that's not
21 captured in the unit price data that needs to be
22 considered in the overall understanding of the issues.

23 MR. FETZER: I mean, I don't know, at this
24 point, in terms of what we asked for in the
25 questionnaires, if I have a sense of what that

1 information is. If there is anything you can provide
2 in the post-hearing brief, in terms of the difference
3 in the credit terms or the significance of tooling
4 costs, I think that would be helpful.

5 MR. ROSENTHAL: We recognize it's on the
6 questionnaires, and it doesn't often come up, and it's
7 only since the questionnaires went out that we learned
8 about these other practices. So my suggestion,
9 respectfully submitted, is that you ask the
10 Respondents about that when they are up here and ask
11 them to provide any information they have got on that
12 as well, and we'll do the same in our post-conference
13 brief.

14 MR. FETZER: Okay. I appreciate that.
15 Thanks.

16 An extra question on the credit: Is it just
17 a question of the terms being more favorable, or, to
18 your knowledge, is it different types of credit
19 offered? Is it a different paradigm, or is it just
20 that maybe they are a little more generous or a longer
21 timeframe?

22 MR. GRITTON: I would say the longer
23 timeframe is the thing that we know the most about.

24 MR. FETZER: Okay. And I can ask them
25 further about that.

1 Is consignment an issue in this industry at
2 all and giving options for that? And if it's
3 something BPI, you can talk about it in the post-
4 hearing submission.

5 MR. GRITTON: Yes, it is an issue. It's
6 very situational. Different OEMs have different
7 programs. We participate in some, and others, we are
8 unable to or don't. I'm sure that that is an issue
9 that's a universal issue, selling within this
10 industry.

11 MR. FETZER: So how exactly does it work,
12 though?

13 MR. GRITTON: Well, again, they are all
14 different, but, in general, the point is to create
15 cash flow by not paying for the parts until they
16 actually use them, or, actually, the preference would
17 be not to pay for them until 120 days after they use
18 them, but, obviously, you know, it depends on what the
19 system can stand. But, in general, that's the issue.

20 You know, there are all kinds of different
21 terms for it, but it consists of us: We make the
22 product and ship the product when the OEMs request it.
23 They don't necessarily pay for the product when we
24 ship it; they pay for it when they install it into a
25 refrigerator, for example, that went down their line.

1 That's when the clock starts ticking for them to pay
2 for the product.

3 MR. FETZER: And that can be different from
4 different suppliers.

5 MR. GRITTON: That's correct.

6 MR. FETZER: Even in the domestic industry,
7 there is not, like, a standard or something.

8 MR. GRITTON: That's right. They are all
9 different.

10 MR. FETZER: Okay. I appreciate that.

11 Substitutes. I know, in the petition, there
12 is discussion of how other metal racks aren't
13 substitutable because they aren't made to
14 specifications, but what about glass or plastic
15 shelving or porcelain racks that are sometimes seen in
16 refrigerators, particularly, or are there any other
17 substitutes out there? How much of a substitute are
18 they, and could you give me some sense of that?

19 MR. GRITTON: If you look at glass, for
20 example, glass shelving from a price substitutability
21 standpoint, there is a considerable difference between
22 those and wire, and, you know, up to two times
23 difference.

24 MR. FETZER: Excuse me. Is the glass more
25 expensive?

1 MR. GRITTON: The glass may be, yes, up to
2 two times more expensive than, you know, a wire of the
3 same function or same size or whatever. So that's one
4 part of the issue.

5 There is not a real substitutability issue
6 on that basis. We have seen, in the past,
7 substitution of plastic bins, for example, for a wire
8 basket. That's not a new issue, and it's certainly
9 not an issue that's going to be affected by this case
10 necessarily. It's been around for a long time, and
11 it's been done in the past.

12 The point is that it seems like that's not a
13 consumer preference. The consumer preference is for,
14 especially in certain applications, the wire product,
15 and it also gets into some technical issues like air
16 flow in the freezer compartment, for example.

17 So there are a number of reasons why that
18 has not proliferated.

19 MR. FETZER: Okay. I'm just thinking, I
20 think I have plastic baskets, now that I think about
21 it, but I did check this morning. I do have wire on
22 the top. I thought I had glass or something clear,
23 but, no, I have wire, and I think I have a plastic
24 shelf with two different baskets in there.

25 Are there any other thoughts on that?

1 MR. ROLLINS: Just to answer from the oven
2 range side, I'm not aware of any substitutions for
3 wire rack. You typically have a wire rack with a
4 nickel finish or a porcelain-enamel finish.
5 Certainly, there has been exploration of alternative
6 finishes potentially for the racks, but I haven't seen
7 any.

8 MR. FETZER: Okay. Thanks. Porcelain; is
9 that just a covering over of the wire? So that would
10 still be subject product.

11 MR. HUDGENS: Yes. It's still subject
12 product.

13 MR. FETZER: Okay. I just wanted to make
14 sure.

15 Let's see here. Mr. Hudgens, you talked
16 about aggressive Chinese practices. Was there
17 anything specific that you were referring to or just
18 general pricing? I think you talked about maybe using
19 pricing as a leverage for the domestic. Is there
20 anything, I guess, that the domestics aren't doing at
21 all, or is it just that the Chinese are doing it to a
22 higher degree?

23 MR. HUDGENS: Well, in addition to
24 significantly underselling the domestic producers, we
25 indicated two items in our testimony: just the

1 favorable credit terms and also the low tooling costs,
2 or free tooling costs, associated with the low prices.

3 MR. FETZER: Okay. So that would be in the
4 aggressive-pricing-practice category.

5 MR. HUDGENS: Yes.

6 MR. FETZER: Okay. And you were talking
7 about prices declining before the period of
8 investigation, in 2002. Do you have any sense of what
9 the volumes were during that period because you
10 mentioned that purchasers were using Chinese prices,
11 but were they just using that as a threat and not
12 purchasing the Chinese product, or were import volumes
13 increasing during that period, to your knowledge?

14 MR. HUDGENS: Well, beginning in the early
15 2000s, the OEM customers began using the Chinese
16 pricing as a negotiating tool before they started
17 actually getting those producers qualified and
18 purchasing shipments from them, and then, as the
19 pricing began to come down further and further, they
20 began to qualify more Chinese producers, and, as a
21 result, we've lost more sales over the period of
22 investigation.

23 But the pricing competition was in effect
24 even before the imports were in the market at large
25 volumes.

1 MR. FETZER: Okay. Thanks. Is service an
2 issue in this industry, in terms of to what extent?
3 Is there a lot of follow-up sometimes, or do you just
4 pretty much send the racks, and you're sort of done
5 with it until you're --

6 MR. GRITTON: Certainly, service is a big
7 issue, and our customers require a high degree of
8 service, both before and after the sale, so that is
9 something that's very important, although it seems to
10 be something that is becoming less important, and it
11 is certainly something that is subordinated to price
12 in this environment.

13 Again, if I may, I just have a short
14 anecdote to highlight that point. We have a project
15 that's under discussion and has been under discussion
16 with one of our major OEM customers. Actually, we
17 assigned one of our design engineers to work on this
18 project over 16 months ago.

19 The engineering group of this customer came
20 to us and said, "We have a concept for an oven rack
21 system, and we would like for it to fit in a certain
22 spot, and we would like for it to perform a certain
23 function, and we need you guys to help us, or we would
24 appreciate it if you guys would help us design the
25 rack and basically help us together -- let's work

1 together and find an engineering solution so that we
2 can design our product."

3 So we assigned a design engineer to that
4 program. He has worked on it for the past 16 months,
5 not full time, but it has been one of his main
6 activities, along with some of our other associates
7 that are involved in design and drafting.

8 We made a few rounds of prototypes to try
9 and drive the project forward in finding a solution.
10 At the point in the project where we felt like we had
11 a design that worked and was suitable, the OEM took
12 our renderings of the product that had been drawn by
13 our people, they posted them on the Internet, and they
14 had an electronic reverse auction for the project,
15 which included Chinese suppliers, and, basically,
16 during this reverse auction, the price of that product
17 was bid down to the lowest price.

18 After the auction event was over, after a
19 while, we began to ask our contacts at the OEM if they
20 were still planning to award us that business because
21 of our contribution to the design and all of the
22 support work that we had done, and what they said was,
23 "Well, we haven't decided yet. We can't make up our
24 minds. There are a lot of factors to consider."

25 So this went on for two or three months,

1 this conversation, at which point the OEM decided that
2 they needed more parts for a pilot run. They needed a
3 fairly large quantity of parts to conduct a pilot run.
4 So they gave us an order, and they asked us to make
5 parts for the pilot run.

6 We continued to ask for a commitment from
7 them so that we could get started building tooling and
8 so we could go ahead and know that we had a commitment
9 for a purchase order for the business.

10 At the point that the pilot run parts were
11 completed or nearing completion, we asked the question
12 again, and, frankly, we began to get a little bit
13 suspicious of what our future was on that program. At
14 the point that we decided that it wasn't in our best
15 interest to go ahead and provide those samples for
16 that pilot run, those people finally told us that they
17 had no intention of giving us that program, that it
18 had been awarded, on the basis of lower price, to
19 another supplier, which we found out is a Chinese
20 supplier.

21 So I think that shows, and it goes back to
22 the conversation before about quality and service,
23 but, again, that's the environment, and that's the
24 emphasis on price.

25 MR. FETZER: Thanks. I appreciate that.

1 Anything else? Those are all of my
2 questions I can think of right now. Thank you for --
3 Mr. Rollins?

4 MR. ROLLINS: Yes. Just quickly, I'll add
5 to that. We've had similar experiences to that that
6 he relayed to you, and we have a situation where, with
7 one particular major OEM, we've lost the majority of
8 business to the Chinese suppliers, but yet they still
9 have ongoing programs, development of new designs and
10 new parts, that they want us to help build prototypes
11 for, design, give consultation to.

12 I'm not aware that they are asking the
13 Chinese suppliers to provide the same service. We're
14 providing the service for them, but there is not
15 guarantee that, ultimately, we would be awarded the
16 product.

17 MR. FETZER: Thanks. Thanks for your
18 responses. It's been very helpful, especially since
19 this a new product, so we're trying to figure out
20 what's going on in the industry.

21 MR. CARPENTER: Mr. Jee?

22 MR. JEE: Justin Jee. I have no questions.

23 MR. CARPENTER: Mr. Mata?

24 MR. MATA: Thank you, Mr. Carpenter. Ruben
25 Mata from the Office of Industries. I would like to

1 take a brief moment to thank Mr. Kara and the staff of
2 SSW Corporation for hosting me last week in Fort
3 Smith, Arkansas. I found your tour to be very
4 informative and educational. Thank you.

5 I have one sole question for both Mr. Kara
6 and Mr. Rollins, and that is, would you describe the
7 similarities or differences between the domestic and
8 Chinese imported products, if there is any?

9 MR. KARA: In my judgment, there is
10 absolutely no difference. If you were to look at this
11 basket, whether it was made by SSW or made by one of
12 the Chinese producers, it would be virtually
13 impossible to tell who the producer was by looking at
14 the product, if that's what you were asking.

15 MR. ROLLINS: Just to add to that, the OEM
16 customer typically is with their requirements. They
17 are submitting a drawing to us or to any other
18 potential supplier, whether it be domestic or foreign,
19 and the expectation is that you're complying with all
20 of the requirements on the drawing. Having done that,
21 if a supplier does do that, it would be extremely
22 difficult to tell if it's made by one supplier or
23 another, either domestic or foreign.

24 MR. MATA: Mr. Rollins, in regard to the
25 Chinese-made oven racks, are the production processes

1 the same for the oven racks made in China, as well as
2 here in the U.S.?

3 MR. ROLLINS: From what I've observed, I
4 would say they are similar, as far as your cutting
5 material, your form, and your welding. In general
6 terms, there is less automation, but I think the
7 Chinese producers, like American producers, are
8 always striving to continually improve and get better.
9 So, from that respect, I think they are trying to do
10 that. Just generally, I think there is less
11 automation.

12 MR. MATA: I have no further questions, Mr.
13 Carpenter. Thanks.

14 MR. CARPENTER: Mr. McClure?

15 MR. McCLURE: Jim McClure, Office of
16 Investigations. I want to thank everybody. It has
17 been a very informative morning, and, as Jim Fetzer
18 said, this is yet another product that we haven't
19 really worked with before, and we deal with them all.

20 A few things. Both Mr. Kara and Mr. Rollins
21 mentioned that if the Chinese imports continue at
22 their present pace, it might well force business
23 decisions. In Mr. Rollins's case, you said you might
24 just have to get out of the business. Mr. Kara, you
25 alluded to the same, but you did say, "We might have

1 to stop producing in the U.S." By that, did you mean
2 you would just go solidly to imports, or are there
3 other offshore sources that you might use?

4 MR. KARA: No. There are certainly other
5 sources of this type of product around the world, and
6 we would not be at any trouble whatsoever in
7 competing. There are no imports from elsewhere around
8 the world. These types of products are made, for
9 example, in Brazil, they are made in Europe, they are
10 made elsewhere, but it's only the Chinese product
11 that's being undersold into this market.

12 So our financial position, frankly, is
13 precarious as a result of what's transpired in the
14 last three, three and a half years, and, without
15 relief, I can tell you, the future is pretty bleak.

16 I'm sorry. Maybe I didn't answer the
17 question you were asking. If you were asking if we
18 would import from China, the answer is, no, I think we
19 would exit the business.

20 MR. McCLURE: Exit the business or look for
21 other offshore sources?

22 MR. KARA: No, exit the business. There
23 aren't any other offshore sources that can compete
24 with us in the U.S. As I say, there are other
25 sources, but none that are competitive.

1 MR. McCLURE: Okay. And that would be
2 Brazil, Europe -- what about Mexico?

3 MR. KARA: We produce a substantial amount
4 of this product in Mexico. We do not ship it back to
5 the United States for use by OEMs in their assembly
6 operations here. We produce their product in Mexico
7 for consumption by generally the same OEMs but at
8 their plants in Mexico. It's not competitive to bring
9 it back.

10 MR. McCLURE: And what they produce down
11 there stays down there.

12 MR. KARA: No. The finished units get
13 shipped back here. They are also used in the Latin
14 American and Mexican markets.

15 MR. ROSENTHAL: Just to summarize, there is
16 no other offshore source that either can compete
17 effectively against SSW here in the U.S., let alone
18 the Chinese. So if the SSW cannot continue to produce
19 in the U.S., the choices are either importing from
20 China or shutting down. I think you heard Mr. Kara
21 say they would end up exiting the business.

22 MR. McCLURE: Mr. Rollins, any thoughts from
23 you?

24 MR. ROLLINS: I think our approach has
25 probably been pretty similar to SSW's. The amount of

1 imports that we're bringing in is declining, and I
2 think it's somewhat of a short-term view for us to do
3 that because, obviously, the OEMs don't need us to
4 import product from China, frankly. They could go
5 directly there themselves. Our future would be to
6 compete with our domestic production, if we could do
7 that.

8 MR. McCLURE: For both of you, in terms of
9 your imports, and you can answer this in the post-
10 conference submission, if you could indicate if the
11 imports tend to fall in, for want of a better term,
12 lower-end parts, parts numbers, and whatnot. But you
13 can put that in your post-conference submission.

14 Mr. Rosenthal knows where I'm going here. I
15 would like to ask both sides, obviously, to brief
16 whether we have Bratsk issues here, and we'll just
17 leave it at that, if you could address Bratsk issues
18 in the post-conference submission.

19 MR. ROSENTHAL: We'll do that, but, if you
20 don't mind, Mr. McClure, just let me -- if you don't
21 mind, I'll just summarize real quickly, just so you
22 won't be surprised when you get our brief.

23 MR. McCLURE: Sure.

24 MR. ROSENTHAL: As you heard me say earlier,
25 there is no other import source currently, and while

1 the subject merchandise is made in other countries,
2 none of those countries is in a position to supply the
3 product in the United States on a competitive basis.
4 So the products couldn't replace the Chinese, nor
5 could they deprive the domestic industry of the
6 benefit of an order. So no surprise. You'll hear
7 more detail on that.

8 MR. McCLURE: Okay. Thank you.

9 With respect to the Chinese producers, do
10 they produce a variety of products? The people who
11 produce oven racks; do they produce other products,
12 such as you do -- you mentioned the air conditioner or
13 the HVAC things -- or do the Chinese producers tend to
14 be niche producers, as Mr. Rollins referred to them,
15 as the U.S. producers seem to be?

16 MR. KARA: Our experience is that the
17 subject product is a very small part of the Chinese
18 producers' overall production. I'm not an expert on
19 their entire product offerings, but I have visited
20 firsthand a number of their plants, and I would say
21 that this product that we're talking about this
22 morning is a very small piece of their overall
23 portfolio, if you will, in that they have a whole
24 range of other products that they offer almost from
25 nuts to soup, if you will.

1 MR. HUDGENS: I would just add that the
2 websites of the Chinese producers confirm what Mr.
3 Kara said. If you look at the websites for each of
4 the individual, qualified Chinese producers, they
5 produce a whole slew of products.

6 MR. McCLURE: Mr. Rollins?

7 MR ROLLINS: If I could add, I would say
8 that's mostly true. It varies. There are some
9 producers that probably specialize more in certain
10 product areas.

11 Really, from my observation, the thing that
12 I notice, and the thing that's most stunning to me
13 when I go and visit some of these facilities, is how
14 rapidly they are growing and expanding their capacity.
15 You could go visit a facility and then come back six
16 or nine months later and virtually see something that
17 would have doubled in size and capability, and you
18 wonder what kind of capital backing is behind this.
19 What's the rationale for just the rush to market?

20 I would ask the question, and I don't really
21 get a straight answer, but it's just amazing, the
22 level of growth that I see over there, and it
23 frightens me.

24 MR. McCLURE: Do they have dedicated product
25 lines, even if they are producing multiple products in

1 the same factory?

2 MR. KARA: I believe the answer is yes, but
3 I have to qualify that by telling you that that's a
4 good part speculation and a little part visual
5 observation. I have not engaged in direct
6 conversations and then had the opportunity to back
7 that up, but that would be my understanding. Mark?

8 MR. GRITTON: I would be the same.

9 MR. McCLURE: Do the Chinese also
10 participate in the commercial refrigeration market?
11 You said that was significantly smaller, so I was just
12 wondering.

13 MR. ROLLINS: I guess I can comment on that.
14 There is some participation there. It's not to the
15 degree that we see in the scope of the residential
16 refrigeration and oven-shelving rack, and we're not
17 personally experiencing the damages and the lost
18 business in that category.

19 MR. McCLURE: Okay. You got straight to my
20 follow-up here. In the commercial refrigeration
21 market, who are the other players in the U.S.
22 industry, producers and customers, actually? If you
23 want to provide that in the post-conference, that's
24 fine.

25 MR. ROSENTHAL: We'll give you that. It's a

1 much more diverse and fragmented market, and so we
2 will provide the lists of both in the post-conference
3 brief.

4 MR. McCLURE: Okay. I think that addresses
5 all of the questions I have. Again, thanks for your
6 testimony.

7 MR. CARPENTER: A couple of additional
8 questions.

9 First of all, on demand, there has been a
10 good bit of discussion about the factors affecting
11 demand. I'm trying to reconcile what I believe Ms.
12 Trossevin said in her opening statement with what some
13 of your testimony was. I believe she indicated that
14 the housing downturn has dramatically reduced demand
15 for appliances and, therefore, demand for the subject
16 product.

17 Mr. Hudgens, I believe you indicated that
18 the decrease in demand was more modest, and then you
19 went on to elaborate that, for refrigerator shelving,
20 there has been a steady decrease in demand, but for
21 oven racks, there was an increase until recently
22 because of the move to more premium ovens that use
23 more racks.

24 MR. HUDGENS: Yes. That's correct.

25 MR. CARPENTER: Okay. One thing that I

1 think would be helpful, and I'm going to ask
2 Respondents this because I think they may have better
3 access to the data, if you're aware of any data on
4 U.S. consumption or sales of refrigerators and ovens,
5 if you could provide that in your brief for each
6 period of investigation.

7 MR. HUDGENS: We will do that. We have
8 access to that.

9 MR. CARPENTER: Okay. Thank you. Another
10 question: Are these products unique to the U.S.
11 market? In other words, the refrigerator shelves and
12 the oven racks; are they unique to the U.S. market?
13 In other words, do the products and the appliances
14 that they are used in differ from those that are sold
15 elsewhere in the world?

16 MR. GRITTON: As Mr. Kara said before, I'm
17 not the most knowledgeable person about appliance in
18 the rest of the world. What I can tell you is that
19 the subject merchandise, the products that we're
20 talking about here today, are specifically designed
21 for use in the specific appliances that are made here
22 in the U.S. I don't know if that answers completely
23 your question or not.

24 MR. CARPENTER: Somewhat. Is it your
25 understanding that most of the appliances that are

1 manufactured in the U.S. are for sale in the U.S. as
2 opposed to export?

3 MR. GRITTON: It's my understanding that
4 there may be a very, very small amount of export, but,
5 for the most part, they are for consumption in the
6 U.S.

7 MR. CARPENTER: Okay. Thank you.

8 MR. KARA: There are very similar products,
9 Mr. Carpenter, but not particularly the same products.
10 The model sizes tend to vary dramatically, depending
11 upon what market is being served, whether that's the
12 Latin American market, the Asian market, or whatever,
13 the European market. There are differences, but
14 similar products certainly are produced elsewhere.
15 We've seen it in person.

16 MR. CARPENTER: Thank you, Mr. Kara.

17 The petition states that you believe that
18 some subject merchandise may have been trans-shipped
19 through Canada during the period of investigation. I
20 was wondering if you have any idea of the magnitude of
21 the trans-shipments, and, if you do, if you could
22 provide any further information in your brief on that.

23 MR. HUDGENS: We'll do that. That statement
24 came from a pure source that showed that product was
25 coming into Canada with a U.S. consignee. So we

1 brought that to the attention of the Commerce
2 Department, but we're not sure of the volumes of that.

3 MR. CARPENTER: Thank you.

4 Just one other minor question: How
5 important are sales of replacement parts? Are they
6 negligible?

7 MR. GRITTON: The sales of replacement parts
8 are to the same OEMs. They are the aftermarket
9 channel for this product, and they are very, very
10 small in relation to the sales of the original
11 product.

12 MR. CARPENTER: Okay. Thank you, Mr.
13 Gritton.

14 That is all of the questions I have. If
15 there are no further questions from staff, then we'll
16 take a break, at this point, about a ten-minute break,
17 and allow the parties to change sides. Thank you very
18 much again for your testimony and your responses to
19 our questions.

20 (Whereupon, a short recess was taken.)

21 MR. CARPENTER: Please begin whenever you're
22 ready.

23 MS. TROSSEVIN: Good afternoon. Thank you.
24 Again, I'm Marguerite Trossevin, counsel for GE and
25 Whirlpool, and we are fortunate that I have with me

1 today industry experts from both of these companies,
2 and I think their presence here speaks for itself and
3 to the importance of this issue for the companies and
4 their willingness to provide the Commission with as
5 much information as possible to be helpful in this
6 case.

7 So I have here, on my left, Mr. David
8 Metzger of GE, and on my right is Scott Wessendorf of
9 Whirlpool, and then we have a face that I know is
10 familiar to many of you at the end of the table, Mr.
11 Bruce Malashevich from Economic Consulting Services,
12 and his colleague, Alex Cook.

13 We are going to begin the presentations this
14 morning with Mr. David Metzger of GE.

15 MR. METZGER: Good morning. I appreciate,
16 Mr. Fetzer, your comments that you had peeked inside
17 your appliances. Perhaps all of you have done a
18 little more of that than you normally would. In my
19 house, with three teenagers, it's easy to see the
20 shelves in the refrigerator because the food is always
21 gone.

22 I appreciate your interest in it, and it's
23 certainly of importance to us, and I hope the
24 information we can share today is helpful in your
25 investigation.

1 I work for GE Consumer and Industrial, a
2 business component of the General Electric Company.
3 GE Consumer and Industrial, or "GEC&I," as we call it,
4 is a \$13 billion global business with 52,000 employees
5 in more than 100 locations. More than 20,000 of those
6 employees in more than half of those locations are
7 here in the United States.

8 With more than a century of experience
9 inventing cutting-edge products and services, GEC&I
10 strives to make life better, more convenient, and more
11 efficient for consumers like us, as well as commercial
12 and industrial customers.

13 GEC&I's Appliances Division manufactures and
14 sells home appliances, including refrigerators,
15 freezers, dishwashers, cooking ranges, speed cooking
16 products, washers, dryers, and many others.

17 In addition, the business offers the largest
18 manufacturer's service organization in the appliances
19 industry, GEC&I's Consumer Services Group. It employs
20 a nationwide fleet of vans to provide prompt and
21 quality service on all Monogram, GE Profile
22 Performance, GE Profile, GE, Hotpoint, and RCA brands.

23 The appliance environment, overall, includes
24 commercial business applications, such as grocery
25 stores and restaurants, and residential applications,

1 such as single-family and multi-family homes, from
2 high-end, elaborate kitchens with multi-million-dollar
3 homes down to multi-family apartment complexes were
4 the builders perhaps select less-expensive product.

5 Many appliances, regardless of whether
6 commercial or residential, are manufactured with wire
7 racks, baskets, and shelves, or glass shelves with
8 wire frames.

9 I've been employed with GE Appliances for 24
10 years. During those years, I've held positions as a
11 quality engineer responsible for ensuring our
12 suppliers' products and processes meet our quality
13 specifications.

14 I've been a facilities engineer, where I
15 determined the equipment needed to produce products
16 and have led teams to install the new equipment in our
17 factories, and a product marketing manager, where I
18 determined which cooking products were desired most by
19 consumers and worked with our manufacturing and
20 technology teams to bring those products to market.

21 Today, though, I want to focus on just a
22 couple of key points.

23 Firstly, we buy these racks and shelves as
24 part of a category that includes all wire hardware,
25 and I'll explain that more in a minute.

1 Secondly, I want to explain the recent
2 environment for us in the appliance industry. Our
3 manufacturing plants in the U.S. are supported by a
4 centralized sourcing organization responsible for
5 purchasing all of the material, parts, or components
6 or finished goods that allow are company to run.

7 I'm part of the team, and we are located in
8 Louisville, Kentucky. Our group is made up of several
9 buying teams, each specializing in specific materials,
10 components, or products. I mention this simply to
11 point out that a particular buyer purchases all
12 materials for a given supply industry, regardless of
13 which factory or appliance needs it.

14 So whether for a built-in oven, a
15 dishwasher, a refrigerator, or a laundry machine, one
16 buyer handles the suppliers for common items. For
17 example, and certainly relevant here, one buyer
18 handles all of our hardware and formed-wire parts, and
19 that is her entire focus. She buys full-wire shelves
20 and wire frames for glass shelves that go in
21 refrigerators, racks that slide into ovens, racks that
22 hold our dishes, and even racks that can be used in a
23 clothes dryer.

24 Incoming material of carbon or stainless
25 steel is bent and formed, as you heard earlier this

1 morning, and then finished with a paint or plating for
2 protection. Our buyer sets the contract, the
3 factories set up materials schedules for just-in-time
4 arrival, and the materials schedules fluctuate just
5 ahead of the production schedule, depending on market
6 needs.

7 In conjunction with any sourcing contract,
8 though, GE must qualify all suppliers. The purchased
9 material quality organization is aligned by category
10 as well, and my point, again, is simply that we view
11 the wire-form industry as one, regardless of what
12 appliance it might be built into.

13 The quality engineer in this group is
14 responsible for evaluating the supplier's processes
15 and controls, as well as the material or part it
16 produces. Of paramount importance is the battery of
17 appearance and performance tests that our materials
18 must meet, such as measures of color and gloss or
19 tests of corrosion resistance and abrasion.

20 Perhaps a couple of examples might help
21 here. One of the tests would involve checking an oven
22 rack for its slide force and its appearance after
23 multiple self-clean cycles. In a refrigerator shelf,
24 its corrosion resistance following the salt spray
25 test, a salty spray environment, would help us reveal

1 its durability, in terms of corrosion, and the
2 application there would be our products in the
3 tropics, or even in housing authority or low-end
4 properties where often refrigerators are just sprayed
5 out with a hose, or even in our own homes where you
6 have a power outage, and you end up with high humidity
7 in that cabinet.

8 So these tests are very important in proving
9 out the quality of the product.

10 Early last year, one of these Petitioners,
11 in fact, Nashville Wire, came to us requesting
12 qualification of an Asian supplier process to allow
13 subcontracting of our parts. The supplier evaluation
14 failed, the supplier could not be qualified, and the
15 subcontracting to Asia was denied.

16 I would like to address the market we're in
17 and the dynamics we are currently facing. Features
18 that made appliances more efficient, convenient, and
19 attractive; that's good for us as consumers. Recent
20 trends have supported more upscale products, such as a
21 preference for glass versus wire refrigerator shelves
22 and porcelain-coated versus the nickel-coated oven
23 racks.

24 "Wire shelves and racks," as defined in this
25 petition, have been impacted by this feature mix.

1 However, over the period specified in this petition,
2 the appliance market has been driven by two
3 overwhelming factors -- boosted industry demand
4 followed by a national economic downturn -- coming off
5 of a somewhat unprecedented and tragic, I might add,
6 hurricane season in 2005. Katrina and Rita gave our
7 industry a boost. Lots of homes needed replacement
8 appliances, refrigerators, in particular.

9 The strength carried into 2006 but began to
10 fall off after March. The home-building industry has
11 been in general decline for the last two and a half
12 years.

13 Our need for wire shelves and racks has been
14 directly affected, as they tie to the market demand
15 for the finished appliances. Over these last three
16 years, the home appliance shipments are down 13
17 percent for refrigerators and down 16 percent for
18 cooking ranges.

19 Did this cause us to order fewer racks and
20 shelves? Absolutely. The decline is the result of
21 market turndown, which we certainly cannot control.

22 It is important to note, though, that while
23 our orders for these parts over the last three years
24 may have decreased, our sourcing pattern has not
25 changed. None of our certain racks and shelves

1 described in this petition have been awarded to
2 foreign suppliers.

3 I might add that, also across this period,
4 we have continued to absorb price increases from these
5 suppliers, both foreign and domestic.

6 I hope this information has been of some
7 help. I'll be happy to answer any questions you might
8 have. Thanks for your time.

9 MS. TROSSEVIN: Thank you. Now, I will turn
10 it over to Mr. Wessendorf. Thank you.

11 MR. WESSENDORF: Good afternoon. My name is
12 Scott Wessendorf, and I work for Whirlpool
13 Corporation. Please allow me to take a couple of
14 moments here to introduce some of the history, the
15 products, and the manufacturing footprint of the
16 world's leading manufacturer of major home appliances.

17 Whirlpool began about 97 years ago, in 1911,
18 making electric, motor-driven washing machines.
19 Almost 100 years later, today, we proudly employ more
20 than 20,000 hard-working women and men here in the
21 United States.

22 Our production facilities are located in
23 eight different states: Michigan, Ohio, Iowa,
24 Indiana, Tennessee, Mississippi, Oklahoma, and
25 Arkansas. We also have sales and support offices

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1 located in Florida and in the State of Washington.

2 Whirlpool is extremely proud of our stable
3 of strong brands, including Whirlpool, Maytag, Kitchen
4 Aid, Jennaire, and Amanda here in the United States
5 and more than 10 other brands worldwide.

6 From a product perspective, and Mr. Fetzer
7 will try to give a little broader view of what it is
8 that we manufacture and sell: washers, dryers,
9 refrigerators, ovens and ranges, dishwashers,
10 microwaves, trash compactors; countertop appliances,
11 such as the Kitchen Aid stand mixer, blenders,
12 toasters, coffee makers; furnaces, air conditioners;
13 and even garage organization equipment.

14 At Whirlpool, we're working hard every
15 single day to enhance our customers' lives within
16 their home through strong, reliable brands and a
17 never-ending commitment to quality.

18 Relative to today's discussion, our
19 refrigerators, ovens, and dishwashers are the major
20 appliances that we'll focus on since they are the ones
21 that have wire racks and shelves.

22 For the most part, every refrigerator, oven,
23 and dishwasher contains some variation of a shelf or
24 rack made from wire, glass, or plastic, and this
25 includes our entry-level appliances all the way up

1 through our top-end models.

2 In fact, in our high-end models, Kitchen Aid
3 and Jennaire, we're actually starting to come into
4 some level of competition with low-end commercial
5 appliances. If you've noticed, some upscale homes are
6 starting to install ovens, cook tops, and
7 refrigerators that you would normally only see in a
8 restaurant environment.

9 Now, I would like to tell you a little bit
10 about myself and my role here at Whirlpool.

11 Whirlpool's global operations are broken
12 into several regions: North America, Latin America,
13 Europe, and Asia. Here, in North America, we're
14 organized into four product groups: a refrigeration
15 product group, a cooking product group, a dishwasher
16 product group, and a laundry product group.

17 I currently work in Whirlpool's North
18 American procurement organization. The procurement
19 function includes a commodity-management role. We're
20 responsible for setting the sourcing strategies for
21 the components that are under us. We have a supply-
22 based management group responsible for the day-to-day
23 purchasing activities within the four product groups.

24 My role here in North America: I'm the
25 North American commodity manager for metal components

1 and wire racks. I'm responsible for a wide range of
2 manufacturing processes, for example, aluminum
3 extrusions, stainless steel fabrications, powdered
4 metal parts, bearings and bearing slides, weldments,
5 hinges, roll forms, and metal clips, along with wire
6 racks.

7 My primary responsibility is, again, to
8 establish a sourcing strategy for the components I
9 just mentioned for each of our four product groups.

10 From a sourcing perspective, we prefer to
11 have a supply strategy for each commodity which
12 includes several suppliers who compete on quality,
13 technology innovation, cost, and delivery. There is a
14 strong focus on quality and the continuation of
15 supply. We absolutely cannot have supply disruptions.

16 In order to develop a sourcing strategy for
17 wire racks, I've conducted a number of supplier site
18 assessments to qualify a supplier. I've visited a
19 number of refrigeration, oven, and dish rack
20 facilities here in the United States, including
21 several of the production facilities operated by both
22 SSW and Nashville Wire. During these on-site
23 qualification reviews, we typically focus on
24 suppliers' quality process, their manufacturing and
25 technology capabilities, and their overall business

1 strategies and business plans.

2 The overriding conclusion you would make
3 from visiting approximately 10 of these production
4 facilities is that the basic production process is the
5 same from one facility to the next. The production
6 process starts with the same raw material, and, in
7 many cases, they buy the raw material from the exact
8 same sources: the spool of wires that are
9 straightened, cut to length, bent, welded, and
10 finished.

11 You might have seen, Mr. Mata, when you
12 visited SSW, more than likely, some high-volume,
13 dedicated production lines. Those produce a handful
14 of our parts that have a rather high volume, but they
15 also have low-volume production equipment which can be
16 quickly changed over for different types of wire racks
17 to satisfy many different customers on the exact same
18 equipment. So they have a high degree of production
19 flexibility within their four walls.

20 In addition, most of the wire rack producers
21 don't rely on production of wire racks as their sole
22 product offering. Many of them have diversified into
23 other markets which rely upon the same manufacturing
24 capabilities, for example, wire frames, large wire
25 inventory-management baskets, fry baskets that you

1 would see at your local McDonald's, and even outdoor
2 grill racks.

3 Finally, from a home appliance point of
4 view, most of the wire rack companies that I've
5 visited tend to offer multiple types of racks and
6 shelves, whether it's a combination of cooking,
7 refrigeration, or cooking, refrigeration, and dish-
8 washing racks. Typically, we're looking to source
9 those suppliers who possess a diversified product
10 portfolio of wire racks in all sizes and shapes.

11 Now, I would like to turn to a few comments
12 on the overall industry and the current market
13 conditions in which we're operating.

14 The major home appliance industry here in
15 the United States, like most other large manufacturing
16 industries, is going through a very serious time. For
17 those of us in the United States appliance business,
18 we've seen a reduction in our total sales over the
19 past several quarters.

20 The overall downturn in the U.S. economy has
21 an impact on the housing market. The depressed
22 housing market has an impact on consumer confidence,
23 and, with the economic uncertainty, people don't
24 usually make the decision to go out and buy a brand-
25 new refrigerator or washing machine unless it's out of

1 absolute necessity.

2 So with the overall lower sales of major
3 home appliances, we need to adjust the overall
4 purchase of wire racks to meet the actual demand of
5 our home appliances.

6 In addition to the lower sales we've
7 experienced, 2008 has been a very challenging year
8 relative to the input costs of raw materials. Across
9 the board, we've seen raw materials for steel,
10 plastic, copper, and others all experience significant
11 increases.

12 In closing, I would like to make two points.
13 I would like to address a statement that the
14 Petitioners made earlier, that SSW and Nashville Wire
15 do produce to our specifications. However, if there
16 was a catastrophic event that happened which would
17 cause a supply disruption, Whirlpool could potentially
18 use similar GE products, if they are made in the same
19 dimensions and fit in the refrigerator or oven in the
20 same fashion.

21 So we may have different specifications,
22 like paint thickness or plating thickness, but if it
23 came down to it, if we had to absolutely use their
24 products, we would definitely look at that as a
25 potential opportunity.

1 Finally, I understand that one of the
2 Petitioners' allegations is that the Chinese imports
3 are keeping them from raising prices on their wire
4 racks. As a person that manages prices of these racks
5 on a monthly basis, I can tell you for a fact, nothing
6 could be further from the truth.

7 The statement that SSW can't raise their
8 prices to cover their raw material increases is
9 totally inconsistent with our experience and the
10 frequent concessions throughout the past several
11 months we've had to make.

12 I hope you find this information to be
13 useful. I would be glad to answer any questions you
14 may have.

15 MS. TROSSEVIN: Thank you. I would like to
16 take a few minutes myself now just to address the like
17 product issue before we then turn to Mr. Malashevich
18 to deal with some of the economic indicators.

19 Petitioners' counsel noted that the
20 definition of "like product" begins with the scope of
21 the investigation, and that's a true statement. It's
22 also true that the Commerce Department, in defining a
23 "scope," is not bound by anything the ITC may say
24 about like product, nor is the ITC bound by Commerce's
25 definition of the "scope."

1 That being said, it's undeniable that the
2 factors that define a class or kind of merchandise are
3 virtually identical to the factors that define the
4 like product. Thus, I believe the staff focused on a
5 very important point in noting that Petitioners, in
6 defining the scope of their petition, treat these
7 products as a single class or kind of merchandise.

8 It's also true that while the like product
9 definition may begin with the scope, it doesn't end
10 there. The Commission has the authority to, and has,
11 in the past, expand the like product beyond the scope
12 of the investigation, and there is a very rational
13 reason for that, and that is because the scope of the
14 petition, when the strategic reasons for defining a
15 scope don't necessarily have anything to do with
16 defining an industry in its totality. They may want
17 to focus in on particular products for particular
18 reasons. That does not, however, mean that the
19 industry itself is not actually larger.

20 In fact, in this case, that's precisely what
21 you have. First of all, you have a single industry,
22 for many of the reasons, and I'll elaborate a little
23 bit, that you've heard from these gentlemen today.
24 You have a single industry, and you have an industry
25 that is larger than the scope of this petition.

1 In looking at the factors for what defines a
2 like product, I would draw your attention, first of
3 all, to the description in the petition itself for the
4 process of producing refrigeration racks and oven
5 racks. They are almost identical. They are almost,
6 word for word, identical. These are basically the
7 same production process.

8 As Mr. Metzger said earlier, you straighten
9 wire, you cut wire, you bend wire to different shapes
10 and forms, and then you finish it. It's essentially
11 the same process and all coming from the same
12 material.

13 It's also essentially the same use. All of
14 these racks go into some sort of appliance or another
15 for the purpose of holding system up, whether it's
16 holding the food in your refrigerator, the pie in your
17 oven, or the dirty dishes in your dishwasher. In my
18 dishwasher, they happen to be dirty more than they are
19 clean, I'm sorry to say.

20 The other thing: What you have here, as
21 you've heard from these gentlemen, not only do you
22 have a much broader industry horizontally, but you
23 have a broader industry vertically. You have a
24 continuum of products that goes from everything from,
25 for example, the small shelf that might go in a small

1 refrigerator in a recreation vehicle or a college dorm
2 refrigerator, something of that nature, all the way up
3 to a larger residential refrigerator, one of the high-
4 end refrigerators that Mr. Wessendorf referred to
5 earlier -- maybe larger, maybe a little fancier -- and
6 then up to commercial applications, from a large,
7 side-by-side commercial refrigerator in a restaurant
8 to the large shelves in the refrigerator section of
9 the grocery store.

10 All of these products are essentially the
11 same, and they are all performing essentially the same
12 function. Are they made to different specifications?
13 Absolutely. That is nothing unusual within the
14 context of what this Commission routinely defines as a
15 single like product. If it were different, then this
16 Commission would be defining thousands of individual
17 like products within every industry because so many
18 industries always make their goods to order. But, as
19 you heard here, if the situation arose, could these
20 gentlemen use each other's shelves? If they were the
21 same size.

22 I was talking with Mr. Wessendorf earlier,
23 and I thought he had a very good example. When you
24 buy Tupperware, you know, when Tupperware has their
25 products made, they have their specifications, they

1 order their bowls, and they order their lids. We all
2 know how those lids have a tendency to sort of
3 disappear over time. You're looking in the closet,
4 and suddenly you've got 10 bowls and four lids. I
5 never know how that happens.

6 So as long as you've got a lid that's the
7 same size, it may not be a Tupperware lid, but you can
8 put it on that Tupperware bowl and stick it in your
9 refrigerator, and I think the same analogy is true
10 here.

11 So you really do have a continuum of
12 products vertically and a much broader range of
13 products horizontally.

14 That concludes my remarks on like product,
15 so what I would like to do now is turn the mike over
16 to Mr. Malashevich.

17 MR. MALASHEVICH: Good afternoon, Mr.
18 Chairman, colleagues. My remarks will be very brief.
19 Please turn to the exhibits I passed out earlier in
20 hard copy.

21 First, concerning the like product, the
22 first page in my exhibit is simply a conceptual
23 illustration of what I think is going on here.
24 Essentially, an arbitrary carve-out of two types of
25 products intended to produce the most-favorable-

1 possible indicia, but also, I believe, to carefully
2 carve out and avoid coverage of imports from Mexico,
3 imports produced substantially by operations of the
4 U.S. players.

5 You heard testimony to that this morning,
6 and I believe those imports are of other products, so
7 the case was gerrymandered essentially to avoid
8 encountering imports from Mexico. The picture, as you
9 can see by the public data for the relevant HTS
10 numbers, imports from Mexico are quite prominent in
11 this product area.

12 Also, in examining the like product, I
13 believe it's always instructive to see how the
14 producers themselves present their products to the
15 public. So, in the next several pages of Exhibit 1,
16 for the benefit of staff, we ordered a Dunn &
17 Bradstreet report for each of the known U.S.
18 producers. We also looked at the websites of each of
19 the known U.S. producers, and these are virtually
20 verbatim reprints of how they describe their product
21 offerings in the public documents.

22 You will see there is no description that
23 conforms to the products, as defined in the petition.
24 In fact, there is a much broader array of products,
25 including, but not limited to, dishwasher racks and

1 display racks for use in a retail environment. I
2 would invite you, at your leisure, simply to flip
3 through that material.

4 I would also like to talk a little bit about
5 conditions of competition and how those conditions
6 apply to your inquiry and to the impact of the imports
7 on volume, price, and overall condition.

8 I think all parties here would agree that
9 the demand for the racks at issue is a derived demand,
10 a very closely derived demand, from production of
11 appliances containing the racks, and that's a very,
12 very important point.

13 If you could turn to Exhibit 2, please,
14 Exhibit 2, I've fashioned based not only on my own
15 research but also interviews with market researchers
16 at GE and Whirlpool during the course of preparing for
17 this hearing, and, basically, everybody agrees on what
18 the drivers are for the appliances at issue.

19 Consumer spending of GDP -- generally,
20 housing completions more so than housing starts
21 because, when you think about it, you don't really
22 bother about buying the appliance until the house is
23 completed, as opposed to started -- that's an
24 important distinction; a category called "manufactured
25 home shipments" of various durable goods destined for

1 the home; existing home sales; and the unemployment
2 rate.

3 Now, I don't think anyone in the room needs
4 to be educated on the direction of change on the top
5 four indicators here in the last 18 months or so, very
6 distinctly downward, and we'll be providing
7 proprietary statistics in the post-conference brief
8 demonstrating how that affected demand for the
9 appliances, the specific appliances at issue here.

10 Because of the derived demand, it goes
11 without question that, with all of these indicators
12 going down, and the unemployment rate going up, you're
13 going to have fewer purchases of the appliances at
14 issue and, therefore, fewer purchases of the racks,
15 directly relevant to your inquiry into volume effects
16 and directly relevant to your inquiry into the
17 industry's overall condition, including profitability.

18 Related to that, another condition of
19 competition is, within the last several years, there
20 has been a substantial movement of appliance
21 manufacturing from the United States to Mexico.
22 Details of that will be provided post-conference, but,
23 basically, a number of appliance lines were moved to
24 Mexico, and purchases of the relevant racks from the
25 United States discontinued. They were replaced not

1 with Chinese racks but racks sourced locally in
2 Mexico.

3 This effect is measurable. We'll perform an
4 arithmetic calculation in the post-conference brief
5 that will indicate the degree to which any declines in
6 the domestic industry volume-related indicators are
7 related to the movement of appliance production, not a
8 shifting in sources of the racks to Mexico.

9 There has also been a very significant
10 change in product mix, a nuance but worth noting here.
11 You heard testimony that there has been something of a
12 shift in consumer preferences in favor of glass
13 shelving in refrigerators from wire shelving. Now,
14 why is that important?

15 Well, first of all, the petition is very
16 carefully crafted to avoid including in the scope the
17 wire frames that go into holding the shelves. So what
18 you have, you get a volume effect from replacement by
19 the glass of the wire without taking into account the
20 wire that's used to hold up the glass, another factor
21 to be considered in the evaluation of volume effects.

22 Also, as you heard earlier, the base year is
23 very interesting, 2005, because of the impact of
24 Katrina and, in the same year, the Rita hurricanes and
25 catastrophes that affected different areas of the

1 country, with a particularly heavy impact on
2 replacement of refrigerators. So the base year of the
3 POI was inflated to the extent that these terrible
4 disasters forced people to replace major appliances at
5 issue here.

6 Also, bear in mind the pricing data received
7 to date through the questionnaires. Petitioners, of
8 course, defined the products to be surveyed in the
9 questionnaires, and, within the bounds of public
10 propriety, you'll see that the data are rather scarce,
11 in terms of what has been submitted to the Commission,
12 and I think that's an illustration of how out of touch
13 Petitioners are with the role of imports in this
14 marketplace, and that's a factor to be considered in
15 your analysis of price effects.

16 That concludes my testimony. I'll be happy
17 to answer any questions. Thank you.

18 MR. CARPENTER: Thank you, panel, very much
19 for your testimony. We appreciate that, and, Mr.
20 Malashevich, we will include your exhibits as an
21 attachment to the transcript.

22 We'll begin the questions with Joanna Lo.

23 MS. LO: Joanna Lo, Office of
24 Investigations. Thank you for taking the time out
25 today to be here and testify before us.

1 I have a question about what was mentioned
2 about Mexico. Are the racks and shelves that go into
3 the appliances that are made in Mexico being brought
4 back to the U.S. and sold in the U.S. market?

5 MS. TROSSEVIN: Let me just clarify the
6 question. Are you asking whether the finished
7 appliances are imported into the U.S.?

8 MS. LO: Exactly.

9 MR. METZGER: From GE's standpoint, we have
10 facilities in Mexico, and that finished product does
11 serve the Latin America, South America, and North
12 America market, and the racks and shelves that are a
13 part of that would obviously be imported as part of
14 that unit. We do not import any parts outside of the
15 manufacture down there.

16 MR. WESSENDORF: The same goes for
17 Whirlpool. We have manufacturing facilities in Mexico
18 that satisfy Latin America, Mexico, and the U.S. as
19 well.

20 MS. LO: Thank you. This is just a question
21 I have to better understand this market. You
22 mentioned that it's possible to replace GE components
23 for Whirlpool components for shelving and racks in a
24 pinch. Correct?

25 Are there a few common sizes of these

1 fridges and ovens that would account for a majority of
2 appliances being sold where both that you could do
3 that with and also that consumers, end users, could,
4 say, replace particular shelves in the oven or add
5 more shelves in an oven or replace a shelf in a fridge
6 or add more shelving in a fridge? I guess I'm asking
7 about whether there is any kind of standardization or
8 common sizes being sold in 50 percent of the market,
9 middle-income households.

10 MR. WESSENDORF: I'll have to go back and
11 check the measurements of wire racks, but there are
12 common cubic foot displacements of refrigerators and
13 ovens. Again, I don't want to answer specifically on
14 the wire racks without going back and checking, but I
15 don't think that any consumer would open a Whirlpool
16 oven and say wait a minute, that's a GE oven rack in
17 there if we were to actually switch them out. So from
18 that perspective I don't think the consumer would know
19 between a Whirlpool oven rack and a GE oven rack if
20 they actually fit in the same cabin.

21 MR. METZGER: I think all I could add is
22 that the rack in many cases, or shelf, to put it
23 casually, it kind of ends up what it ends up. The
24 primary focus in the design of the appliance typically
25 has to do with internal capacity of the oven cavity or

1 the refrigeration cavity, and how we achieve that with
2 insulation and plastic liner or metal liners, whatever
3 is involved, the racks end up sized to fit once we're
4 done with that design.

5 So I can't tell you there are common sizes.
6 One would think there would be some. The producers
7 could certainly answer that better than me, but I
8 would not be surprised if we had a whole lot of
9 different sizes of racks and shelves because we don't
10 start out with that piece and design around it. It
11 ends up designed toward the end to place inside.

12 Does that make sense?

13 MS. LO: Yes. I'll follow on, too, we've
14 talked about dishwasher racks being not part of the
15 scope but they are made of wires. But what about the
16 ones you see in microwave ovens? I notice that a lot
17 of microwave ovens that come with homes now,
18 apartments and single family homes, have wire shelving
19 inside. Nobody has mentioned that. I was just
20 wondering if --

21 MR. METZGER: Those products definitely do,
22 in a little different environment, so our
23 qualification would be a little different. We don't
24 happen to produce any microwaves in the United States
25 so we do not need that shelving for production here.

1 MS. LO: Thank you.

2 MR. WESSENDORF: The exact same comments for
3 Whirlpool as well. Relative to the microwave oven
4 shelves.

5 MS. LO: This is for Mr. Malashevich. I'm
6 not sure to what extent you can account for, sorry for
7 mispronouncing your last name. How can we account for
8 --

9 MR. MALASHEVICH: You can just call me
10 Bruce.

11 MS. LO: How can we account for the data for
12 2005 in order to take into consideration the spike in
13 demand due to these catastrophes like Katrina.

14 MR. MALASHEVICH: Sitting here right now,
15 I'm not sure. What I do understand, and I invite my
16 colleagues to contradict me or add if I'm wrong, but
17 for whatever reason it had a disproportionate impact
18 on demand for refrigerators more so than ovens.

19 We will be supplying appliance-specific data
20 in our post-conference brief that hopefully will allow
21 both of us to get a better gauge on that effect.

22 MS. LO: Can somebody explain the real
23 reason why a fridge demand, why the two products, the
24 demands are somewhat inverse? I think previously the
25 producers had mentioned that oven demand actually has

1 gone up whereas refrigerators has not.

2 In house building you would have both going
3 into the home market, right?

4 MR. WESSENDORF: I can't answer your
5 question as specific as you'd like it. We'll have to
6 go back and check, but I can say from Whirlpool's
7 business model, new home construction is a portion of
8 our sales, but also the replacement business is a
9 larger portion of our sales. So it really depends on
10 how long each piece of equipment lasts relative to the
11 replacement, but we can go back and specifically
12 answer your question.

13 MR. METZGER: The numbers I provided were
14 the industry shipment numbers, not GE. At least the
15 data that I watch every week suggests that
16 refrigerators are down 13 percent over the three year
17 period and cooking ranges are down 16 percent.

18 Whether the oven rack producer volume is up
19 because the average number of racks in an appliance is
20 up substantially, I can't validate that. I just know
21 that we're selling a lot fewer cooking and
22 refrigerating products today than we were last year
23 and the year before and the year before.

24 MS. LO: Thank you. That's all my
25 questions.

1 MR. CARPENTER: Ms. Brown?

2 MS. BROWN: Thank you. June Brown. I'm
3 with the Office of General Counsel. Thank you for
4 your testimony. It's very helpful.

5 I have some questions with respect to the
6 non-petitioning companies that you listed. If we're
7 looking at, again, just refrigerator shelving or oven
8 racks made for OEM users that are made from steel wire
9 or sheet metal and for residential/recreational
10 vehicle use, do they make any sizes that aren't in the
11 scope for those products? Or types that aren't in the
12 scope?

13 MR. MALASHEVICH: Personally I do not know.
14 We just repeated essentially verbatim what we
15 extracted from the public documents I described. I
16 don't know.

17 MS. BROWN: Okay, thank you.

18 MR. WESSENDORF: I do know that some of the
19 companies that are listed and others in the industry
20 are able to produce oven, refrigeration and dish
21 racks. So there are companies there that have a
22 broader range of product portfolio, but I can't
23 specifically answer your question about whether they
24 produce racks of different sizes that have been
25 prescribed in the petition. We'd have to go back and

1 look at that.

2 MS. BROWN: Thank you.

3 For the ones that produce for dishwashers
4 the shelving or baskets that are made from wire and
5 metal, do you know if they use the same equipment or
6 the same facility as they use for the oven racks and
7 the refrigeration shelving?

8 MR. WESSENDORF: They do. The basic process
9 we discussed in the testimony of, you take the same
10 raw material, cut it to length, weld it, that part of
11 the process is done in the exact same facility for all
12 three. Then they're able to send it to another
13 facility that does all the finishing. There is that
14 capability that exists and the base part of the
15 forming process, the welding process, is done in the
16 exact same facility.

17 MS. BROWN: On the same equipment?

18 MR. WESSENDORF: I can't specifically answer
19 that question. I'd have to go back and go through
20 their facility one more time to be able to answer
21 that. I will say the Petitioners have equipment, it's
22 interesting I think that one of the things I heard or
23 assumed based on the testimony and our answers to our
24 questions was a lot of conversation around dedicated
25 equipment that can't be changed over, and that is a

1 true statement for a portion of our business. The
2 high value parts. There may be, there's a lot less
3 part numbers that make up a huge amount of volume. We
4 have other parts that they produce for us, a vast
5 number of parts, that aren't done on dedicated, high
6 volume equipment. They're done in manual cells that
7 are manual welded, manual event, and those cells are
8 able to be switched over and again produce other parts
9 for us, other parts for competitors. So that
10 capability does exist within their own manufacturing
11 facilities.

12 MS. BROWN: What would those parts be? Can
13 you give me some examples?

14 MR. WESSENDORF: I'll answer it in two ways.
15 The facilities actually from Petitioners, they tend to
16 designate to a specific product. That's based on the
17 finishing operations they've chosen to put in that
18 facility.

19 If it's one of their cooking facilities
20 we're talking about, they have a couple of high volume
21 parts that they run non-stop on a dedicated line. We
22 have a lot of other parts they produce in the exact
23 same factory on other machines that are manual in
24 nature and they're able to change over and produce,
25 again, different parts, different sizes for us as well

1 as other competitors.

2 I can even say of another of the
3 Petitioners, went and we visited June 11th of this
4 year, and went through an extensive review pretty much
5 all day long with them and talked about their
6 manufacturing capability. One of the discussions was
7 it happened to be a point that focused on the oven
8 rack making capability, but we also pressed them on
9 whether or not they'd be able to do refrigeration
10 racks for us. The discussion at the time was we would
11 absolutely bend and weld the parts in the exact same
12 facility as the oven-making racks, but then they would
13 have to ship it not too far away to another facility
14 to be able to actually powder coat them and make them
15 a refrigeration rack.

16 So we've had conversations with one of the
17 petitioners to specifically do it within their four
18 walls. The exact same plant with the existing
19 equipment that they have. They may have to make some
20 investments, but for the most part it was the exact
21 same facility with the exact same employees using the
22 exact same raw materials.

23 MS. BROWN: Thank you.

24 For either the refrigerator shelving or the
25 oven rack products that are in the scope, both the

1 Your Honor manufacturer and the Chinese are qualified,
2 are there any differences that you can point to
3 between the products once they become qualified? Is a
4 basket a basket at that point? Or are there
5 differences in your view?

6 MR. WESSENDORF: Once they become qualified
7 and they produce to our specifications --

8 MS. BROWN: -- specific product for that
9 refrigerator.

10 MR. WESSENDORF: Our specifications don't
11 change from where the part is produced. The suppliers
12 are expected to meet our specifications. You wouldn't
13 be able to ascertain whether one was made in China or
14 whether one was made in the Your Honor.

15 MS. BROWN: Thank you.

16 MR. METZGER: I'd like to add something to
17 that if I can.

18 MS. BROWN: Yes.

19 MR. METZGER: I think the term qualified
20 deserves some comment. We do qualify suppliers based
21 on the ability to produce a product that passes a
22 certain battery of tests, but the process is also
23 important to us. We heard testimony earlier about
24 service. another aspect of service is their ability
25 to meet our production needs and how quickly they can

1 respond to those changing needs.

2 There are process controls inside their
3 factory. so when we say a supplier is qualified, I'm
4 not sure that talking about whether you as a consumer
5 could notice a difference in the racks is really the
6 most important part of the story. For me, that's the
7 easy part of the story.

8 The rest of it is, is the manufacturing
9 facility run in a way that it can deliver high yields
10 and not present us a problem with down time and
11 outages that disrupt our supply of parts? How nimble
12 are they in fluctuation where volume may go up and
13 down 20 percent over a couple of weeks? What is their
14 response time? we measure cycle time with suppliers.
15 What is their ability to support us if some unplanned,
16 I wouldn't say catastrophic, but significant event
17 took place. Had a problem with some sort of the part,
18 and we had a quality issue with all of the parts in
19 process between them and us so those end up
20 quarantined. How quickly can we respond to get new
21 parts into our facility?

22 I don't want to belabor the point, but I
23 don't want the Commission to feel like once you've got
24 a shiny rack that fits, that's all that really
25 matters. There is a lot to getting comfortable with a

1 supplier.

2 MS. BROWN: Thank you.

3 MR. WESSENDORF: I'd like to also amplify my
4 comments by saying there is an expected bare minimum
5 qualification that each supplier would have to meet,
6 but after meeting that qualification there is still
7 relative differences between say the quality that one
8 facility is able to put out relative to another. They
9 both may meet that minimum qualification standard, but
10 there are still differences between them and we do
11 take that into consideration in our sourcing
12 decisions.

13 MS. BROWN: Thank you.

14 Mr. Malashevich, on the imports from Mexico
15 you said the petition was kind of designed to exclude
16 those. What type or products are you talking about in
17 particular?

18 MR. MALASHEVICH: It's a good question that
19 I suggest staff investigate. I do know from the
20 plaint language of your questionnaires that you've
21 already been thinking because you're seeking
22 information, unusually in my experience, on imports
23 from Mexico as a non-subject country. And within the
24 bounds of the confidentiality constraints I'll just
25 refer to the public trade statistics which show for

1 the relevant HTS numbers cited in the petition, what's
2 coming in from Mexico is actually larger in terms of
3 dollars than what's coming in from China.

4 I believe that much of that product is not
5 being picked up in the questionnaire exercise confined
6 as it is to the products defined in the scope of the
7 petition. Exactly what those products are, I don't
8 know. I've been trying to find out, but the
9 information sources available to me don't permit an
10 answer, quite frankly.

11 MS. BROWN: Thank you.

12 I just have one more question. Ms.
13 Trossevin, you said I believe in your opening that the
14 Petitioners didn't properly define the domestic
15 industry. I wasn't clear if you were offering an
16 alternative definition or suggesting an alternative.
17 Help me out there.

18 MS. TROSSEVIN: We will go into this in more
19 detail in terms of what we think is the proper
20 definition in the post-conference brief, but I will
21 say briefly that as I alluded to today, we think that
22 at the very least the industry is much broader, both
23 horizontally and vertically. And when you look at,
24 you can actually also, we're talking about even if you
25 were staying in the appliance sector you're going to

1 go substantially broader horizontally and vertically.
2 There are some other issues, and these are issues
3 we're still actually looking at ourselves in terms of
4 trying to gather information and how this would fit
5 into the six factor analysis.

6 But there are some real issues in our mind
7 even with other types of racks and shelves. For
8 example, just from a very simple perspective, if you
9 look at the wire rack that Petitioner's counsel
10 brought the wire rack basket for a refrigerator, you
11 can tell yourself from looking at it, I would venture
12 to guess that if you looked at some closet organizers
13 you would see a wire basket that looks very much like
14 that.

15 So there are still some issues like that
16 that we are looking at, but I think there's no
17 question in our minds that it's much broader, even
18 within the appliance sector. You have barbecue grills
19 and other types of, the microwave oven racks and
20 various things, and the dishwasher racks. All of
21 those things in the commercial sector that we
22 definitely think would be part of the same domestic
23 like product.

24 MS. BROWN: Thank you. We'll be interested
25 to see that.

1 I have no further questions. Thank you very
2 much.

3 MR. CARPENTER: Mr. Fetzer?

4 MR. FETZER: Thanks. Jim Fetzer, Office of
5 Economics.

6 I'd like to thank you for coming today.
7 It's very helpful, especially on these new products
8 to figure out what's going on.

9 You probably heard this morning, I was
10 asking the Petitioners about the importance of price
11 versus other factors and I think, I'm hopefully not
12 mischaracterizing them, they were saying that while
13 there might be other factors such as quality and
14 service, price has typically been trumping those, at
15 least with the Chinese imports.

16 I just wanted to get your sense. Is price
17 the most important factor in the market right now? Is
18 it what's making the sale? Or other things, whether
19 it's quality. There was some discussion of these
20 other payment terms and tooling costs. Or issues of
21 quality, failed qualifications, or having
22 diversification of supply. In the marketplace right
23 now what's really been your experience in terms of
24 what's been determining the sale?

25 MR. METZGER: At the risk of sounding like

1 it's a little bit of a marketing spiel, I think it is
2 important to come back to the brand. When you folks
3 think of GE for a lot of consumers we tend to think of
4 appliances and light bulbs, not necessarily pet
5 insurance in London or jet engines even that we might
6 notice on a wing.

7 Protecting our image is a very important
8 thing, and as you well know, it's the kind of thing
9 that once it gets away from you, it's tough to get
10 back. We live under that pressure, and it truly is
11 pressure every day, to uphold our company's
12 expectations. Even though we are not a predominant
13 portion of the GE portfolio, our piece in appliances
14 does bear the burden of a substantial part of the
15 brand equity that you and your friends understand to
16 be GE.

17 There is no question that price is a
18 component in the decision. Just like when I go buy
19 something. But to characterize it as at the end of
20 the day that's really the swing vote to me is a bit of
21 an over-simplification.

22 And I wouldn't be surprised at all, and
23 wasn't this morning, for people to feel like it is.
24 Our buyers are primarily focused on contract terms and
25 conditions and the price that goes with it.

1 Fortunately, they are not the only
2 decisionmaker in the process. If I'm meeting with a
3 buyer I would expect a lot of dialogue about price.
4 But you know what? When the quality engineer comes to
5 my plant he doesn't care about the price. All he
6 cares about is how will that part look a few years
7 from now sitting in somebody's home? How many service
8 calls are we going to have to run to replace broken
9 welds on a rack that caved in and spilled milk all
10 over a floor? Those things don't happen because the
11 quality products we get from these folks and others do
12 the jobs they're supposed to do.

13 But I can't let it simplify to price. It
14 clearly is a component. In my view, and in 24 years
15 running from manufacturing buildings to being the
16 manager of a product line, I have never felt like
17 price was even even with quality. Not even even.
18 Quality has to be kind of the price of entry for our
19 business.

20 MR. FETZER: Mr. Wessendorf?

21 MR. WESSENDORF: Whirlpool is not going to
22 make a sourcing decision that's going to negatively
23 impact its brand. Just like the gentleman from GE
24 explained, we take very serious our brand image across
25 the board, across all of our products. So quality is

1 a major portion of every sourcing decision that we
2 make.

3 Similarly to GE, I think it's important to
4 note that sourcing decisions at Whirlpool are not just
5 made by one person looking at one data point. It's a
6 team discussion made up of the manufacturing team, the
7 engineering folks, the quality engineer as well as the
8 purchasing function. So everybody has a say in the
9 discussion and all the factors are included, not just
10 price.

11 MR. FETZER: Just as an example, do you
12 frequently buy product that's more expensive than the
13 competing products, or is that a rare occurrence?
14 Does it happen at all? You can answer in post-hearing
15 if you want. If you can give some examples where
16 maybe you did pay more, or to give some sense of how
17 often that happens.

18 MR. METZGER: I don't mind answering
19 somewhat generically. There is no question, we have
20 turned down endless less expensive opportunities for
21 parts and materials that, even some that would qualify
22 in terms of specification, but we didn't feel like the
23 supplier had integrity, had the financial footing, had
24 the delivery capability, all those different things.
25 The decisions that we've made to, have we made a

1 decision to move a part to a more expensive supplier?
2 Yes, that's happened too. Primarily from two vantage
3 points. One is, did the product not turn out to be
4 what we thought we qualified and asked for and were
5 having problems; or the new potential product offers
6 value beyond our specification in terms of new
7 technology, a better perceived look. Some things
8 aren't all quantifiable. But without question we've
9 had moves to more expensive suppliers, supplier parts
10 and materials in an effort to uphold the expectations
11 for the end product.

12 MR. WESSENDORF: There have been instances
13 where we've identified a supplier that's producing
14 parts for our competition and we quote them. They may
15 have a better price than the current. We go to their
16 facility and conduct a quality audit and they don't
17 pass. We do not go chase that lower price. We remain
18 with the higher price at the current supplier who has
19 met our quality expectations and has been qualified.

20 There are other instances where we may have
21 solicited competitive quotations. They may look, if
22 you just look at the end price, as more competitive.
23 But when you get the cost breakdown and start looking
24 at the elements of the cost, if a supplier is quoting
25 a raw material cost of say 25 cents a pound when the

1 current market is at 50 or 60, you know that's not a
2 sustainable price and that's not something we're going
3 to go after and put ourselves at risk of supply
4 disruption later.

5 MR. FETZER: Mr. Metzger, you said earlier
6 that one of the Petitioners didn't qualify on a
7 certain product. I assume it was one of the products
8 we're talking about today. Does that happen a lot?
9 Is that more of a rare occurrence? Do you have any
10 instances where the imported Chinese product has
11 failed qualification too? Mr. Wessendorf can also
12 address that.

13 MR. METZGER: Let me clarify the example I
14 gave, because I didn't want to mislead anybody.

15 The specific example was Nashville Wire
16 coming to us for parts they currently produce for us
17 to see if we would allow production of those parts in
18 a different facility. We qualified by process.

19 So you're not allowed, to be consistent with
20 our terms and conditions, you're not allowed to move a
21 part to a different plant without notification to us
22 and qualification of that process.

23 So they came to us. The way it would always
24 work. In this case it happened to be an Asian
25 supplier. The supplier evaluation did not pass and so

1 we did not permit that. As best I know that's not
2 happening. I wouldn't expect it.

3 Are there times when suppliers fail our
4 qualification efforts? All the time. We travel the
5 world with a quality organization set up in each pole.
6 They visit suppliers, there are probably 20 or 30
7 people today in somebody's plant that we haven't been
8 in before looking to qualify that as a potential
9 source.

10 In a product line, I don't mind saying this,
11 in a product line we as consumers enjoy the fact that
12 it's a little nicer looking, it's a little better
13 quality, it has a few more features, and I don't pay
14 much more, I probably pay less for it today than I did
15 ten years ago.

16 So as consumers we like that part. As
17 manufacturers, there's an obvious challenge there with
18 all the inflation that's gone on. So we're scouring
19 the globe. We have a lot of people like Scott here,
20 and they work hard to find sources. I wish our hit
21 rate were higher, but there are people that fail more
22 often than they pass.

23 MR. WESSENDORF: I echo the same comments
24 from the experiences we've had in sourcing a whole
25 host of suppliers. But specifically with regard to

1 the wire racks, there have been instances where we've
2 thought that a supplier looks like they have a good
3 business model, good business case to move parts.
4 They have failed the quality expectations. And in
5 certain cases we tend, depending on the situation,
6 depending on the sourcing strategy, have taken great
7 efforts and expended a great amount of time and
8 resources to get those sources of supply up to the
9 quality standards we need them to be.

10 So in certain circumstances, yes. Many
11 suppliers go by the wayside that never qualify and we
12 don't spend time developing. But there are certain
13 situations as well that it's worth taking time and
14 expending a great deal of resources to actually get
15 them to the standard we need to be.

16 MR. FETZER: So in this qualification
17 process, is it usually like you go in once and
18 they're qualified for a period of time? Do they have
19 to be requalified for every new product that they're
20 sending you if the specifications change? What's the
21 frequency of this? Would you revisit qualified
22 suppliers to recertify them over time? How does it
23 work?

24 MR. WESSENDORF: There's a basic quality
25 assessment that takes place. The actual manufacturing

1 facility has to be able to have the correct quality
2 processes embedded in their natural day to day
3 business. There's a quality piece that gets done, and
4 then on a part by part basis there are certain
5 specifications and testing requirements that are done
6 that they must pass as well.

7 So you could have a supplier facility that
8 is qualified from a quality perspective, meaning that
9 we can source product out of there. They may produce
10 three or four parts for us that pass and they might
11 try to produce three or four parts that may fail. So
12 it's an ongoing basis for the facility as well as part
13 to part based on certain specifications.

14 MR. FETZER: Okay.

15 MR. METZGER: I'd be happy to stipulate
16 further detail in the brief, but at a high level I'd
17 say that two qualifications take place in almost every
18 case. One is the process by which the part or
19 material is delivered. The other is the product or
20 material itself. So there are performance appearance
21 criteria for the product or material itself, but
22 there's also a qualification of the process that
23 delivers that.

24 To the extent that somebody wants to use a
25 different process or it moves to a different factory,

1 even if they move the same equipment to a different
2 factory, we've got to requalify.

3 Ongoing, we have a fairly elaborate system
4 to keep checks and balances with critical quality
5 dimensions that are called out on prints and field
6 quality people who audit and suppliers who send us
7 data on their processes. We watch for out of bound
8 situations and a number of other things that would
9 trigger further review. If that's important, I'll be
10 happy to detail it in the brief.

11 MR. FETZER: If you want to give us some
12 sense of that process it would be helpful.

13 How important is diversification of your
14 supply base? Do you feel a need to have multiple
15 suppliers at a given time? Or if you feel, I mean
16 this morning we heard something about a pendulum going
17 back and forth. Does it vary over time? If it does
18 vary, where is it at right now?

19 MR. WESSENDORF: From two perspectives it's
20 important to have a diversified supply base. One,
21 from a source of supply. It's never a good idea to
22 have all your eggs in one basket, so to speak, because
23 if something tragic happens, you don't have another
24 source of supply able to produce your requirements.
25 But also from a negotiation leverage perspective and

1 being able to manage the entire overall relationship.
2 I think that based on the comments that Mr. Kara
3 provided earlier today, the strategy can change based
4 on certain acquisitions that take place over time,
5 which shift the leverage from maybe an equilibrium to
6 more one-sided.

7 So over time our objective is to make sure
8 that we have a capable supply base that's diversified
9 so that if anything were to happen it doesn't threaten
10 our source of supply.

11 MR. METZGER: I would describe it as
12 something that is very clear cut but much more complex
13 in practical application.

14 From our standpoint, we always want multiple
15 suppliers. I would never be interested in a single
16 source except that the supplier makes that attractive
17 to me. The supplier says hey, if we're willing to do
18 this, are you willing to do that? They're trying to
19 get more bang for the buck out of their investment, or
20 trying to leverage their expertise. They could have a
21 hundred reasons why they would offer us some type of
22 incentive. It could be anything. It doesn't always
23 end up in the price column. But it is really that
24 balance between us always wanting multiple supply
25 points so that we're covered if something happens.

1 Unfortunately there are a number of things that we buy
2 that if that plant had a catastrophe today we'd shut
3 down a plant tomorrow and it would cost us over a
4 million dollars. We don't like that.

5 So we always want multiple points. But day
6 to day there are always opportunities where it becomes
7 of some value to narrow that. People bet. Sometimes
8 it's a good bet, sometimes it's not.

9 So I don't disagree at all with the pendulum
10 comment. We may differ on the motive of that pendulum
11 moving, but I think it's a very clear scenario between
12 supplier and customer. It's just very complex as
13 individuals and companies way in as to what the value
14 proposition is and whether it's the right thing to do
15 for the business.

16 MR. FETZER: What about the tooling costs
17 and credit terms? There was this morning some
18 testimony that the Chinese were offering some more
19 favorable terms than the domestic industry. Is that
20 your experience at all? Is it an important factor?

21 Again, if it's BPI you can respond in the
22 post-conference brief.

23 MR. WESSENDORF: We'd have to respond to
24 that in the post-conference brief.

25 MR. FETZER: Okay. Thanks.

1 I think there was some testimony earlier,
2 I'm not sure if it was Mr. Wessendorf or Mr. Metzger
3 on the domestic, saying that domestic producers have
4 been able to increase their prices. And without
5 getting into BPI again, can you give me a sense of the
6 order of magnitude?

7 This morning they said their raw material
8 costs are up 100 percent, maybe more. Is it something
9 on that magnitude? Again if it's BPI you can respond
10 in the post-hearing. But give some sense of what
11 order of magnitude we're talking about here.

12 MS. TROSSEVIN: I think it would probably be
13 better if we addressed that in the post-conference
14 brief.

15 MR. FETZER: Okay.

16 That's all I can think of at the moment.
17 Thanks for your responses and for coming and helping
18 us understand this industry.

19 MR. CARPENTER: Mr. Jee?

20 MR. JEE: Justin Jee. Mr. Carpenter, I
21 don't have any questions.

22 MR. CARPENTER: Mr. Mata?

23 MR. MATA: Thank you, Mr. Carpenter.

24 I'm not quite sure who to address this
25 question to but I suspect, it's my understanding that

1 the North American household appliance industry, in
2 particular for General Electric cooking equipment, is
3 being manufactured in Mexico by your joint venture
4 partner MABE, the appliance company. I guess in the
5 case of Whirlpool you had a production capacity in
6 Mexico.

7 Do you know, I suspect as you have added
8 production capacity, suppliers have moved to Mexico to
9 produce some of the parts required for your
10 appliances. But do you have, to your knowledge, any
11 qualified suppliers in Mexico for refrigerator
12 shelving or oven racks?

13 MR. METZGER: I can answer a piece for us.

14 MS. TROSSEVIN: I just wanted to clarify.
15 Are you saying are they producing in Mexico for
16 Mexican production or producing in Mexico for U.S.
17 production?

18 MR. MATA: I understand the point was clear
19 most of the production of shelving that was made in
20 Mexico, produced in Mexico, it's for the Mexican
21 market or for export to other countries where Mexico
22 might have free trade agreements.

23 At my end I'm just basically trying to
24 identify would you happen to have any qualified
25 suppliers of refrigerator shelving or oven racks in

1 Mexico?

2 MR. METZGER: Maybe I don't understand the
3 question, but by definition, we do because we use them
4 in our products down there. In fact we do produce a
5 high number of cooking ranges, by the way, here in the
6 U.S. down in Lafayette, Georgia, so it's not all down
7 there. But you're correct, MABE is an affiliate of
8 ours.

9 They have multiple suppliers qualified, one
10 of which is their own plant. We have a manufacturing
11 plant that does make these materials and feed directly
12 to our plant, but we also have other suppliers that
13 supply to the plants down there.

14 MR. WESSENDORF: We also have oven
15 production here in the U.S. in Tulsa, Oklahoma and
16 Cleveland, Tennessee. We do have some production as
17 well in Mexico. To answer your question directly,
18 there are suppliers in Mexico today that produce
19 refrigeration and cooking racks for us, supplying to
20 our Mexican operations.

21 MR. MATA: Why wouldn't the same suppliers
22 qualify to produce racks for the refrigerators that
23 are manufactured in Mexico and exported to the U.S.
24 market?

25 MR. METZGER: Did you say why weren't they?

1 MR. MATA: In the case of Whirlpool
2 Corporation, they manufacture refrigerators --

3 MR. METZGER: I'm with GE, but --

4 MR. MATA: Right. This question was
5 addressed to Whirlpool.

6 In the case of oven racks say for General
7 Electric, MABE produces appliances for the Mexican
8 market, and also for the Latin American market.

9 MR. METZGER: Correct.

10 MR. MATA: My understanding is they have
11 production facilities in other countries in South
12 America, principally in the northern part. Where do
13 they obtain, in your case, General Electric, their
14 racks for ovens? I'm not so certain in Whirlpool's
15 case, but I'm just curious to find out where MABE,
16 whether they would source their racks domestically in
17 Mexico since they do have a joint venture for cooking
18 equipment.

19 I was just curious if there's any difference
20 in the quality, and I'm sure there is, between the
21 Chinese made racks and the Mexican made racks.

22 What I'm really driving at is the cost of
23 production higher in Mexico? Or is it just quality?

24 MR. METZGER: I can't speak to that really.
25 We can discuss what further information would be

1 helpful.

2 I think I'm missing the point. We source
3 locally for our production down there and some of
4 those products do come to the U.S. as exports out of
5 Mexico so they would hold local Mexican content.

6 In terms of why we choose to produce
7 locally, we manufacture some, or source locally down
8 in Mexico and how competitive that is with China
9 versus U.S. suppliers, we could talk about that and
10 see what's appropriate to share.

11 MS. TROSSEVIN: I wasn't sure if your
12 question was whether their standards are the same for
13 the production there as here?

14 MR. MATA: Yes, are the standards the same,
15 for one. In other words, are North American standards
16 for racks, including Mexico, are they the same?

17 MR. METZGER: The standards for anything
18 under the GE brand as a finished goods would be the
19 same. Now MABE obviously produces some things under
20 their own brands and I can't speak to that quality
21 level, whether it's better or worse than ours. But
22 everything regardless of supply point, country,
23 manufacturer under the GE brand would have common
24 quality hurdles to clear.

25 MR. WESSENDORF: Like GE, Whirlpool's

1 expectation for products are the same for North
2 America, whether it's made in Mexico or the U.S..
3 Specifically to answer your question, we have the same
4 supplier in the U.S. that we do in Mexico for
5 refrigeration and cooking racks. So the expectations
6 upon them are the same, above and below the border.

7 MR. MATA: Thank you very much, Mr.
8 Wessendorf.

9 MR. CARPENTER: Mr. McClure?

10 MR. McCLURE: You mentioned, Mr. Wessendorf,
11 that Whirlpool produces in eight states. Those eight
12 states aren't all producing racks, that's just
13 Whirlpool, the corporation. So you produce the
14 subject product in the two sites in the U.S.?

15 MR. WESSENDORF: Can you clarify your
16 question?

17 MR. McCLURE: I'm sorry. You are producing
18 the ovens and the refrigerators at only two sites that
19 would use these subject products?

20 MR. WESSENDORF: I'll go down the
21 manufacturing footprint for you relative to
22 refrigeration and cooking.

23 MR. McCLURE: Okay.

24 MR. WESSENDORF: Our Amana, Iowa plant is a
25 refrigeration plant.

1 Our Fort Smith, Arkansas plant is a
2 refrigeration plant.

3 Our Evansville, Indiana plant is a
4 refrigeration plant.

5 Our Tulsa, Oklahoma facility is a cooking
6 facility.

7 Our Oxford, Mississippi facility is a
8 cooking facility.

9 Our Cleveland, Tennessee facility is a
10 cooking facility.

11 MR. McCLURE: And each of those in some form
12 or fashion uses some of the subject product.

13 MR. WESSENDORF: They do, and we also have
14 two dishwasher plants as well, one in Tennessee and
15 one in Finley, Ohio that produce dishwashers that use
16 racks.

17 MR. McCLURE: Mr. Metzger, what's the case
18 for GE? You produce, you mentioned the one I think
19 oven facility in Georgia?

20 MR. METZGER: We produce refrigerators and
21 dishwashers in Louisville and cooking products in
22 Lafayette, Georgia; refrigeration in Decatur, Alabama;
23 and also in Bloomington, Indiana. All sites using
24 these materials.

25 MR. McCLURE: Since you both have some

1 operations in Mexico, is there any Chinese product
2 going into Mexico? Or is there any Chinese product
3 that comes into the U.S. that ends up in Mexico that
4 ultimately gets put in a refrigerator or an oven?

5 MR. WESSENDORF: There are a few parts
6 produced, racks that is, produced in China that are
7 consumed in Mexico for Whirlpool.

8 MR. McCLURE: So those go directly into
9 Mexico?

10 MR. WESSENDORF: for the production in
11 Mexico, yes.

12 MR. McCLURE: Okay.

13 MR. METZGER: I'm not sure I can answer the
14 question. I just don't know for sure. I think I
15 know, but rather than way we should take it as a
16 follow-up because I don't do the buying there. I'm
17 less familiar with the Mexico piece.

18 MR. McCLURE: Do both of you produce the
19 commercial and refrigeration products and ovens?

20 MR. METZGER: For GE we do no commercial.
21 It's all consumer.

22 MR. McCLURE: Whirlpool?

23 MR. WESSENDORF: The same exact answer. We
24 do no commercial.

25 MR. McCLURE: Mr. Wessendorf, the one thing

1 you mentioned on your visit to the Fort Smith facility
2 and the high volume products are very automated and
3 what not, then you would go into the individual
4 production units for other products. Are those other
5 products, are they the subject products we're looking
6 at or are they other wire products?

7 MR. WESSENDORF: I'll have to go back and
8 measure exactly because the way the Petitioners
9 prescribed the product was so specific. I'd have to
10 go back and measure, but I'll try to answer your
11 question this way. Whirlpool has several parts that
12 our Petitioners. SSW specifically, produce for us in
13 their Fort Smith, Arkansas facility. Some of them are
14 high volume, and some of our parts are low volume. So
15 their manufacturing capacity is using all the
16 equipment there. So they're using both high volume
17 lines and low volume annual lines to produce our
18 products. It's all based on volume.

19 If you ask them I suppose they'll tell you
20 at some point in the volume continuum, as soon as they
21 hit a specific volume figure, they would tend to
22 automate more than they would use the manual piece of
23 equipment.

24 MR. McCLURE: Such an approach, it makes
25 sense that you would automate more for the higher

1 volume. I assume that would be the case for the
2 Chinese producers? Or is there as much automation in
3 China?

4 MR. WESSENDORF: I might want to answer that
5 in the post-conference brief if we could.

6 MR. McCLURE: Okay, any thoughts from GE?

7 MR. METZGER: I can't speak to it. I've
8 never been to any of them.

9 MR. McCLURE: Okay, that's all I have.
10 Thank you for your testimony.

11 MR. CARPENTER: Thank you again.

12 There's been extensive testimony about this
13 qualification process. I don't want to beat it to
14 death but I think it's an important issue so I do have
15 still a couple of questions on that.

16 First of all, can you give me a sense as to
17 how long it would typically take you to qualify a
18 supplier? For example, is this just maybe a one or
19 two day visit to a plant or is this a process that
20 might go on for six months or so? Or does it vary?

21 MR. WESSENDORF: It does vary because quite
22 frankly each supplier facility isn't the same. So
23 when we go in, and we've seen some facilities that are
24 very close to meeting our expectations, I would say
25 those go a lot faster in getting them up to the

1 quality expectations if they don't pass the first time
2 than others. And I could say without specifically
3 giving away any proprietary information, there have
4 been some instances where it's taken up to two years
5 to qualify suppliers.

6 So it's a rigorous process and there are
7 various different elements, again. To answer the
8 questions earlier, there is a process based
9 qualification process that has to happen and there's
10 also parts specific qualification. So it could extend
11 as long as two years or they could pass the first time
12 we go. It really depends on what we see when we get
13 there.

14 MR. CARPENTER: Thank you. That's what I
15 was looking for.

16 Secondly, during the period of investigation
17 have either of the Petitioners either failed to
18 qualify their product with your firm, either of your
19 firms, or have they lost their approved status? And
20 if you consider that confidential, feel free to
21 respond to that in your brief. I'm just talking about
22 the two petitioning companies at this point.

23 MS. TROSSEVIN: I think we'd probably have
24 to do that in a post-conference brief. I'm sure they
25 wouldn't want to say that without checking their

1 information.

2 MR. CARPENTER: Sure. And if that has
3 happened if you could provide details on that we would
4 appreciate it.

5 Then I would ask the same question, you can
6 respond to this in your brief as well, specifically
7 with respect to the Chinese suppliers, have any of
8 those companies failed to qualify with you during the
9 period of investigation or been removed from their
10 approved status. If you could provide details on that
11 as well.

12 MS. TROSSEVIN: For the same reasons, as I
13 said, I think they would want to go back and be very
14 careful about checking any of that information before
15 they suggested one way or the other.

16 MR. CARPENTER: Absolutely. I understand.

17 There's been a good bit of testimony on your
18 part about your emphasis on quality and reliability of
19 supply, and I certainly understand that. Of course
20 this morning, as previously noted, we've had extensive
21 from the Petitioners that they have lost sales to
22 Chinese imports simply because of price, lower price.

23 they claimed in their testimony that you
24 recognized them as reliable suppliers of a quality
25 product. Again, this gets into details which I think

1 you'd want to respond to in your brief, but because of
2 the nature of this, being a public meeting, I can
3 understand why you would not up to this point provide
4 specific details or specifically try to refute their
5 assertions at the conference.

6 But, and Mr. Wessendorf, you in particular
7 mentioned I think, that there was a catastrophic event
8 that caused a supply disruption at some point during
9 the investigation period. Is that correct?

10 MR. WESSENDORF: No, I said if there was a
11 catastrophic event --

12 MR. CARPENTER: Oh, hypothetical. I
13 apologize.

14 Again, if there were any, particularly with
15 respect to the Petitioners, during the period of
16 investigation if there were any situations in which
17 you either experienced quality problems or delivery
18 problems with respect to their product, if you could
19 document those and give us information about the
20 company involved, the time period, the quantity
21 involved, the extent of the delay in delivery, and how
22 you responded to that situation, whether you dropped
23 them as a supplier for that particular part or parts
24 or whether you reduced your purchases from them.

25 Just so I get a better understanding of this

1 too, can you give me a sense as to typically how many
2 suppliers would you have for a particular part number?
3 I know you indicated a preference for multiple
4 sourcing which is certainly understandable. Again,
5 you may want to answer this in your brief. Would you
6 typically, for any given part number, would you dual
7 source or triple source or single source? I don't
8 know if you want to comment on that at this point or
9 not.

10 MS. TROSSEVIN: I think the information is
11 sensitive enough that they'd rather put it in the
12 post-conference brief.

13 MR. CARPENTER: Sure, thank you.

14 MR. METZGER: I have one question of
15 clarification on your prior request. You asked that
16 we specifically address situations where perhaps we
17 dropped parts or reduced purchases. Is that specific
18 to for quality reasons? Or if it's simply a reduction
19 because of industry down-turn? Are you more focused
20 on where they failed to deliver?

21 MR. CARPENTER: Right. I'm more focused on
22 quality, reliability of supply, issues like that.

23 Petitioners have stated there are no imports
24 of refrigerator shelves and oven racks from any
25 countries other than China. Do you agree with that?

1 And specifically, if the answer to that is no, if you
2 are aware of any imports from countries other than
3 China, if you could provide details in your brief
4 about the quantity and value of those imports, what
5 countries they came from, I'd appreciate it.

6 MR. METZGER: We'll be happy to provide it.
7 I can tell you that we would want to do that in the
8 brief.

9 MR. CARPENTER: Okay, thank you.

10 One final question. Are you aware of any
11 transshipment of subject merchandise through Canada
12 during the period of investigation?

13 MR. METZGER: I am not.

14 MR. WESSENDORF: I am not either.

15 MR. CARPENTER: Thank you.

16 That's all the questions I have. Are there
17 any further questions?

18 Again, thank you very much for your
19 testimony and for your responses to all of our
20 questions. We really appreciate it.

21 At this point we'll take, again, another
22 short recess of about ten minutes to allow the parties
23 to prepare for their closing statements. We'll begin
24 those with the Petitioners.

25 Thank you.

1 (Whereupon, a short recess was taken.)

2 MR. CARPENTER: Can we resume the conference
3 now please?

4 Please proceed whenever you're ready, Mr.
5 Rosenthal.

6 MR. ROSENTHAL: In the time allotted I want
7 to try to stress where we've got some agreement and
8 where there are obviously areas of continuing
9 disagreement.

10 The first thing I do want to point out in
11 terms of disagreement, with respect to Mr.
12 Malashevich, and I've known him for about 27 years, so
13 I think I can call him Bruce.

14 I recognize that Respondents have a
15 disadvantage when cases are filed because they have to
16 get familiar with the record and it's not always easy
17 to come up with theories that, the theory that Mr.
18 Malashevich or Bruce propounded about the
19 gerrymandering the like product in order to somehow
20 shield imports from Mexico is, the best way I can put
21 it is ludicrous. There's nothing to that. If you
22 look at the like product you'll see there aren't
23 imports from Mexico that are of subject merchandise.
24 You didn't even hear the OEMs claiming that they do or
25 would or could import subject merchandise from Mexico.

1 There are imports of racks, commercial racks
2 from Mexico, but it doesn't help with respect to the
3 case or the like product the way that we've defined it
4 to have done it the way we did.

5 So you may continue to go down that rabbit
6 hole, but it's probably not going to be too fruitful.

7 On the like product issue, just to make
8 clear, I think we did get agreement ultimately, or
9 just to clarify, the products made by SSW that are not
10 on the highly automated lines are all subject
11 merchandise. They're not products other than for the
12 refrigerators and ovens and the like, so don't be
13 confused on that. Everything they're producing in
14 that plant in Fort Smith is subject merchandise. The
15 manual cells are making only the refrigeration parts
16 and they use dedicated tooling for that.

17 Also on like product, I'm not sure, I'm kind
18 of surprised to see the web site offerings as evidence
19 of a different like product. I thought that the
20 Commission's sophistication on like product extended
21 way beyond what companies might offer on a product web
22 site. Otherwise I'm pretty sure if you go to the GE
23 web site you'll end up with, if there is one single
24 one, a product offering ranging from not nuts to soup
25 or soup to nuts, but jet engines to dishwasher racks

1 to light bulbs to you name it. We all understand what
2 the six factors are that the Commission looks at. If
3 you look at those and you apply those as we have in
4 this case, you'll see two like products that don't
5 include the wide variety of products claimed by the
6 Respondents here. At most we would concede if you
7 have one like product that includes the refrigerator
8 and shelves and baskets and the like and the oven
9 racks but not anything beyond that.

10 This whole idea about the dishwasher racks
11 being subject merchandise, again have no basis in
12 fact. You cannot make those on the same assembly
13 lines. In fact they're not made.

14 The Respondents actually make, GE and
15 Whirlpool make their own racks for dishwashers here in
16 the United States and there's only one other
17 significant producer of racks for dishwashers, a
18 company called Nest-Away, and they make those racks
19 for dishwashers and only racks for dishwashers on
20 their equipment. They don't make any other subject
21 merchandise.

22 Ms. Trossevin I think was struggling,
23 understandably, to come up with an alternative
24 definition of the like product. There isn't a good
25 one that makes sense, again, applying your six factor

1 test. She said if you look at dishwasher racks and
2 these other racks, the purpose is the same -- holding
3 something up. Well, that's broad enough to I assume
4 include bank robbers and lawyers, but that's not the
5 way you look at like product here.

6 You look at those six factors, you look at
7 the way the product is made, the physical
8 characteristics of the product. You look at the
9 customers and you look at the customer perceptions and
10 you look at the pricing and you look at the other
11 factors that are relevant to the Commission's
12 analysis. They haven't done that here and it will be
13 interesting to see what their alternative theories
14 are.

15 On the topic of customers and customer
16 perceptions, we feel very strongly that the commercial
17 products don't make any sense to be included in the
18 like product. Just look at Mr. Malashevich's Exhibit
19 2 to his testimony. He looks at the demand factors
20 for these products.

21 We don't believe, for example, and maybe
22 we're wrong and maybe we'll hear differently in the
23 post-hearing brief, that the demand for the
24 refrigeration racks at a 7-11 or a Safeway which are
25 in the commercial sector which are not competitors of

1 course of GE, Whirlpool, or Electrolux, are affected
2 by housing starts to any great extent, or the other
3 factors listed by Mr. Malashevich in his Exhibit 2.
4 Totally different environment, totally different
5 market, different customers, different channels of
6 distribution. As you heard, the product
7 characteristics are different and so are the methods
8 of production.

9 By the way, on the topic of demand factors,
10 there was some confusion, I think, but we all agree
11 that there's a reduction in apparent consumption for
12 refrigerators and ovens. The confusion is that with
13 respect to oven racks the demand hasn't gone down,
14 apparent consumption hasn't gone down because of the
15 product mix mentioned earlier. other than that, we
16 don't disagree that demand is down overall for those
17 products, but demand is down, you heard from their
18 mouths, 13 to 16 percent overall for those products.
19 You also heard testimony today from Mr. Kara that his
20 employment is down 40 percent. Forty percent. Far
21 exceeding the decline in the apparent consumption.
22 You also heard the drop in capacity by Nashville Wire
23 is down 50 percent, capacity utilization I should say.
24 The impact on this industry of the Chinese
25 imports has been far in excess of any decline in

1 demand that you may see.

2 I wanted to just clarify one other thing
3 with respect to the cost/price squeeze. Mr.
4 Wessendorf I think said that Petitioners said that
5 they can't raise prices. We never said that. We said
6 we can't raise prices sufficient to cover our cost
7 increases. That's what we said.

8 We have, Petitioners have raised prices
9 quite significantly in the past year, but not as
10 significantly as their costs have gone up. That's the
11 problem. The reason for that is the imports from
12 China.

13 I was fascinated listening to what I regard
14 as very credible, honest testimony by the Respondent
15 witnesses about how they scour the globe, I think that
16 was the quote, to find qualified sources for their
17 supplies. Why do you do that? Why do you scour the
18 globe? Why do you expend those resources to qualify
19 suppliers if ultimately what you want, if you don't
20 want the lowest priced product out of those qualified
21 suppliers. And understandably the companies on
22 Respondent's side here have great pride in their
23 products. They're only going to get qualified product
24 but they want it at the lowest possible price so they
25 can offer the latest and greatest appliances at as,

1 what you heard Mr. Metzger say, at prices that are
2 lower than you would think given the bells and
3 whistles that are put on them, and given inflation.
4 I'm paraphrasing that quote and you'll see it exactly
5 in the transcript, but that's exactly what's going on.

6 High quality product is demanded by the OEMs
7 as they should be. Everyone who is supplying them is
8 meeting those quality demands. Then once you meet
9 that quality demand it's all about price. To their
10 credit, no one denied that price wasn't important.
11 One witness or another may have diminished it compared
12 to quality, but once you qualify and once you have
13 that quality I think they all conceded that price was
14 at least a factor, even if they didn't admit that it
15 was the most important factor.

16 By the way, Mr. Metzger said that GE hasn't
17 changed its sourcing patterns in the last few years.
18 I don't have any public information to refute that,
19 but I think it's probably true that the reason why
20 their sourcing patterns haven't changed very recently
21 is that GE I believe is one of the original OEMs to
22 begin sourcing from China. So not much new has
23 changed there.

24 How much time left? Okay.

25 I will conclude by emphasizing -- We'll have

1 some rebuttal or some clarification about the example
2 given by Mr. Wessendorf and the Whirlpool
3 conversations with Nashville and the qualifying the
4 Chinese source.

5 In conclusion I will say that what you heard
6 from this hearing and what you will see in the
7 documentation is clearly evidence that price is key
8 here. Price undercutting is rampant. Price
9 suppression is rampant. And the result of all of the
10 pressure by the imports from China has been declining
11 profitability, production, capacity utilization, and
12 ultimately material injury being suffered by the
13 domestic industry. So we urge the Commission to issue
14 an affirmative determination in this case.

15 Thank you.

16 MR. CARPENTER: Thank you, Mr. Rosenthal.

17 Ms. Trossevin?

18 MS. TROSSEVIN: Thank you very much. I know
19 it's been a long day for everybody, so I will be
20 brief.

21 Also because it's very evident, two things
22 are very evident to me today. One, Mr. Rosenthal and
23 I know each other for a long time and sometimes we
24 agree on a lot of things. We're not going to agree on
25 very much in this case, that's for sure.

1 But I'm also very confident from the staff's
2 questions that they understand very well the issues
3 that we present here. The facts, the key facts here
4 about the like product. I think it's much better
5 really for us to continue this debate, shall we say,
6 in our post-conference brief where we can provide you
7 with a little bit more robust information than we're
8 able to do in this public forum.

9 So I would simply like to thank you for all
10 your time and attention today, and we will do our
11 utmost to answer all your questions in the post-
12 conference brief, and of course anything else you
13 would need from us in the future.

14 Thank you.

15 MR. CARPENTER: Thank you, Ms. Trossevin.

16 On behalf of the Commission and the staff I
17 want to thank the witnesses who came here today as
18 well as counsel for sharing your insights with us to
19 help us gain a better understanding of the conditions
20 of competition in this industry and the product that
21 we're looking at.

22 Before concluding, let me mention a few
23 dates to keep in mind.

24 The deadline for the submission of
25 corrections to the transcript and for briefs in the

1 investigation is Tuesday, August 26th.

2 If briefs contain business proprietary
3 information a public version is due on August 27th.

4 The Commission has tentatively scheduled its
5 vote on the investigations for September 12th at 11:00
6 a.m. It will report its determinations to the
7 Secretary of Commerce on September 15th. And
8 Commissioners' opinions will be transmitted to
9 Commerce on September 22nd.

10 Thank you for coming. This conference is
11 adjourned.

12 (Whereupon, at 1:44 p.m., the preliminary
13 conference in the above-entitled matter was
14 concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Kitchen Appliance and Shelving

INVESTIGATION NOS.: 701-TA-458, 731-TA-1154
(Preliminary)

HEARING DATE: August 21, 2008

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary conference

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: August 21, 2008

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: Christina Chesley

Signature of Court Reporter