

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
MULTILAYERED WOOD FLOORING) Investigation Nos.:
FROM CHINA) 701-TA-476 and
) 731-TA-1179 (Preliminary)

Pages: 1 through 283

Place: Washington, D.C.

Date: November 12, 2010

HERITAGE REPORTING CORPORATION

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
) Investigation Nos.:
 MULTILAYERED WOOD FLOORING) 701-TA-476 and
 FROM CHINA) 731-TA-1179 (Preliminary)

Friday,
 November 12, 2010

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

The preliminary conference commenced, pursuant to Notice, at 9:34 a.m., at the United States International Trade Commission, CATHERINE DeFILIPPO, Director of Investigations, presiding.

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On behalf of the International Trade Commission:

Staff:

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 JAMES McCLURE, SUPERVISORY INVESTIGATOR
 FRED RUGGLES, INVESTIGATOR
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 DAVID FISHBERG, ATTORNEY/ADVISOR
 JAMES FETZER, ECONOMIST
 MARY KLIR, AUDITOR
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APPEARANCES: (cont'd.)

In Support of the Imposition of Countervailing and
Antidumping Duties:

On behalf of the Coalition for American Hardwood
Parity:

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Mannington Mills, Inc.
DAN NATKIN, Director-Wood Business, Mannington
Mills, Inc.
DONALD R. FINKELL, JR., Chief Executive Officer,
Shaw Hardwood
JAMES P. DOUGAN, Senior Economist, Economic
Consulting Services, LLC

JEFFREY LEVIN, Esquire
Mondial Trade Compliance
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In Opposition to the Imposition of Countervailing and
Antidumping Duties:

On behalf of Lumber Liquidators Services, LLC, Home
Legend, LLC and US Floors, LLC:

JOHN JAKOB, Director of Merchandising, Lumber
Liquidators Services, LLC
CLINT HUBBARD, CEO, Home Legend, LLC
PIET DOSSCHE, CEO/President, US Floors, LLC
TOM ROGERS, Capital Trade, Inc.
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Washington, D.C.

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In Opposition to the Imposition of Countervailing and
Antidumping Duties:

On behalf of Other U.S. Respondents:

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MITCH TAGLE, B&M Noble Co., d/b/a du Chateau
Floors
JONATHAN TRAIN, Swiff-Train Co.
JEFF HAMAR, Galleher Corporation
TONY PAN, Hallmark Hardwoods, Inc.
CLYDE ELBRECHT, Real Woods Flooring, LLC
JERRY BURT, Suncrest Supply
KEVIN BOWEN, BR Custom Surface
JOHN HIMES, Wood Flooring International

WILLIAM PERRY, Esquire
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On behalf of China National Forest Products Industry
Association and its members:

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STEPHEN W. BROPHY, Esquire
Barnes, Richardson & Colburn
Washington, D.C.

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P R O C E E D I N G S

(9:34 a.m.)

MS. DeFILIPPO: 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-476 and antidumping duty investigation No. 731-TA-1179 concerning imports of Multilayered Wood Flooring From China.

My name is Catherine DeFilippo. I am the Commission's Director of Investigations, and I will preside at this conference today. Among those present from the Commission staff are, from my far right, Jim McClure, the supervisory investigator; Keysha Martinez, the investigator; Fred Ruggles, the investigator; to my left, David Fishberg, the attorney/advisor; James Fetzer, the economist; Mary Klir, the auditor; and Alberto Goetzl, the industry analyst.

I understand that 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 microphone. We also ask that you state your name and affiliation for the record before beginning your presentation.

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1 In addition, I would appreciate it if you
2 could silence your cell phones so as not to disrupt
3 the speakers. Are there any questions?

4 (No response.)

5 MS. DeFILIPPO: If not, welcome, Mr. Levin.
6 Please proceed with your opening statement.

7 MR. LEVIN: Good morning. My name is Jeff
8 Levin, and I'm the executive vice president and chief
9 legal officer for Mondial Trade Compliance. I have
10 the privilege of representing the Petitioners in these
11 investigations, the Coalition for American Hardwood
12 Parity, and its member companies.

13 The members of the Coalition, situated in
14 states throughout the country, including Alabama,
15 Georgia, New Jersey, North Carolina, South Carolina,
16 Wisconsin and Virginia, represent approximately 45
17 percent of domestic production of multilayered wood
18 flooring, and this petition has the support of
19 manufacturers that together account for a substantial
20 majority of domestic product. In fact, we are not
21 aware of any U.S. producer of multilayered wood
22 flooring as U.S. producers of multilayered wood
23 flooring are defined which is opposed to this
24 petition.

25 I am honored to be joined today by a panel

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1 of witnesses whose experience and participation in and
2 contributions to this industry exceed pretty much
3 anyone else in this country. The Commission has a
4 difficult job in preliminary investigations because of
5 the tight investigation schedule and because it is
6 often dealing with an incomplete record.

7 These investigations may be particularly
8 complicated because while there is a finite universe
9 of domestic producers there is a vast pool of foreign
10 producers in China, estimated to be in the
11 neighborhood of about a thousand companies, and a wide
12 range of U.S. importers and distributors, some of whom
13 finish unfinished imported product in the country,
14 some of whom serve small markets, some of whom are
15 truly independent players and some of whom are among
16 the largest retailers in the United States.

17 The Commission's job is further complicated
18 by the manner in which imports of the product are
19 classified under the harmonized tariff schedule. In
20 our petition and supplemental submissions, we have
21 tried hard to identify and clarify these issues to as
22 focused a degree as possible.

23 Today you will likely hear from those
24 parties opposed to this petition many arguments that
25 the struggles of the industry are due to the economy

1 and the challenges within the housing market, that
2 there are other products that can serve the same
3 purposes as multilayered wood flooring, that the
4 domestic producers are themselves aligned somehow with
5 Chinese supply, or that the industry is actually on an
6 upswing.

7 That's fine. It is certainly in the
8 self-interest of the petition opponents to present
9 arguments, though the expectation must be that they
10 are valid to the issues presented and supported by
11 evidence. We look forward to addressing their
12 propositions as these investigations continue.

13 But these propositions cannot detract from
14 elemental facts; that the volume of subject imports is
15 significant, that subject imports have had and
16 continue to have a pronounced adverse impact on U.S.
17 prices of the product and that the injuries suffered
18 by this industry is to a significant degree
19 attributable to the tide of cheaply priced, directly
20 competitive and, we submit, dumped and subsidized
21 imports from China.

22 This petition has been brought with the hope
23 that parity will again be restored to this
24 manufacturing sector. We very much appreciate the
25 Commission's seriousness of purpose and the work of

1 this investigation team.

2 On behalf of the Petitioners, we
3 respectfully submit that the evidence of record will
4 demonstrate that there is indeed more than a
5 reasonable indication that this domestic industry is
6 suffering material injury and threatened with material
7 injury by reason of subject imports. Thank you.

8 MS. DeFILIPPO: Thank you very much, Mr.
9 Levin.

10 We will now have an opening statement by the
11 Respondents. I'm not sure. I don't have it here who
12 is going to make the statement. Mr. Ludwikowski?
13 Welcome, and please proceed when you are ready.

14 MR. LUDWIKOWSKI: Thank you and good
15 morning, Ms. DeFilippo and Commission staff. I am
16 Mark Ludwikowski with Sandler, Travis & Rosenberg.
17 With me here today is my colleague, Kristen Smith, and
18 Tom Rogers from Capital Trade.

19 We represent Lumber Liquidators, Home Legend
20 and US Floors in this matter. These companies oppose
21 the petition, but each see the industry from a
22 different perspective. Also appearing before you
23 today are representatives and counsel for other U.S.
24 Respondents and the China National Forest Products
25 Industry Association.

1 From those domestic producers who chose to
2 support this petition, you will hear that all
3 multilayered wood flooring is commercially
4 interchangeable. It is used for the same purposes and
5 applications, sold the same way, and the only
6 determining factor in customer purchase decisions is
7 price.

8 Petitioners will attempt to attribute
9 financial difficulties arising from the economic
10 downturn to imports from China. However, the
11 situation has been quite different. The suppliers of
12 engineered wood flooring, the people in this room who
13 develop this product by evaluating it and marketing it
14 to meet their customer needs, will contradict
15 Petitioners' claims.

16 I want to begin our presentation today by
17 emphasizing three key aspects of this case that I
18 think the staff should take a particularly hard look
19 at. First, you will hear testimony about how the
20 availability of engineered wood flooring from China,
21 combined with an innovative variety of products,
22 including unique species, has created overall demand,
23 particularly in the residential remodeling and
24 replacement sector.

25 Respondents have been central in stimulating

1 consumer interest in this area over the past decade by
2 expanding the offerings of engineered wood products,
3 including the introduction of bamboo flooring, cork,
4 rustic looks and unique designs aimed at the
5 residential remodeling and replacement sector. To
6 meet the needs of this segment, Respondents have
7 adapted to a more direct and efficient retail
8 distribution channel.

9 Petitioning companies have been slow to
10 embrace this shift due to a different business model
11 and primary focus on the builder segment. As such,
12 the data confirm our position that a significant
13 component of any import growth from China into the
14 United States with threat to growth and demand for
15 multilayered wood flooring is not a displacement of
16 U.S. production.

17 Respondents are not the first to explain
18 this development. In its Section 332 investigation
19 report two years ago, the Commission found that the
20 introduction of engineered wood flooring expanded the
21 overall U.S. market as it can be used in applications
22 not suitable for solid products.

23 Second, the drop in U.S. sales by domestic
24 manufacturers parallels the downturn in the U.S.
25 housing market, particularly traditional construction.

1 This cycle has been particularly important to domestic
2 manufacturers which rely heavily on the builder
3 market.

4 Third, despite the economic downturn both
5 Shaw and Mohawk have been aggressively expanding and
6 have changed the landscape of the U.S. wood flooring
7 market through major acquisitions. They are now major
8 competitors to both Chinese mills and other U.S.
9 producers. Indeed, to the extent that smaller U.S.
10 producers have lost business, it is more likely that
11 those losses have been to U.S. mills competing for the
12 same customer base.

13 Finally, the wood flooring market appears to
14 be turning the corner. U.S. housing demand saw a
15 double digit increase in the first half of 2010, which
16 means a gradual recovery for the builder segment and
17 wood flooring sales overall. In addition, the market
18 has also been helped by the promotion of wood flooring
19 as a sustainable and environmentally friendly product,
20 particularly the popularity of fast growing species.

21 The statements of these importers and
22 retailers provide the most credible evidence of the
23 state of the market and the nature of the competition.
24 Accordingly, their testimony and written responses
25 will show that there is no reasonable indication of

1 material injury or threat of material injury to the
2 multilayered wood flooring industry.

3 We have several industry representatives
4 here who will provide some information that we believe
5 is helpful to the Commission to making a
6 determination. Thank you.

7 MS. DeFILIPPO: Thank you very much. We
8 will now turn to direct testimony for those in support
9 of the imposition of countervailing and antidumping
10 duties.

11 Mr. Levin, if you and your panel would like
12 to come up and get seated? Please feel free to start
13 as soon as you're ready. Thank you.

14 (Pause.)

15 MR. LEVIN: Thank you, Madam Chair. Thank
16 you, investigation team. It's my pleasure to present
17 Petitioners' witness panel. We'll begin with Mr.
18 Holm.

19 MR. HOLM: Thank you. Good morning. My
20 name is Kim Holm, and I'm the president of Residential
21 Business for Mannington Mills, Inc. I have been with
22 Mannington since 1994. We have been manufacturing in
23 the United States for almost a hundred years, since
24 first being established by John Boston Campbell in
25 1915 in Salem, New Jersey.

1 Mannington Mills is still headquartered in
2 Salem and through four generations is still owned by
3 the Campbell family. In addition to our manufacturing
4 facility in New Jersey, we also operate plants in
5 Alabama, Georgia, North Carolina, Texas, Florida and
6 California. Overall we employ about 2,000 people.

7 We are very proud that we have successfully
8 manufactured in the United States for so long. We are
9 also proud of the products we make, and we are very
10 proud of the way that we support and serve our many
11 communities. Like most of the major domestic
12 manufacturers of multilayered wood flooring or
13 engineered wood flooring as it is most commonly known,
14 we are a full-line floor covering manufacturer.

15 In addition to multilayered wood flooring,
16 we also produce carpet, vinyl and laminate floor
17 coverings. These other products are produced in
18 separate manufacturing facilities and serve the
19 various floor covering options desired by today's
20 consumers. Although the economy continues to
21 challenge these other products, they are all
22 performing better financially than multilayered wood
23 flooring.

24 Our multilayered wood flooring products are
25 manufactured in Epps, Alabama, and High Point, North

1 Carolina, and those facilities are solely dedicated to
2 wood flooring. In our Epps facility, we glue the
3 several layers of plywood veneer, usually five
4 veneers, that serve as the principal raw material for
5 the product.

6 Once glued together into a panel with a face
7 ply of a specific species such as oak or hickory,
8 these semi-finished products are then shipped to our
9 finishing operations in High Point. There the panels
10 are cut to proper width, typically three inches or
11 five inches. A tongue and groove is applied to
12 facilitate the installation. The product is stained
13 and coated with a high durability finish to protect
14 the flooring from wear and tear, and the final product
15 is packaged and shipped.

16 This is a sample of one of our multilayered
17 wood flooring products. Not this one, but the one I'm
18 going to get you here in a minute. Don, if you could
19 pass that up here, please? It is made of five plys of
20 veneer with innerplys, including the core of gum or
21 poplar and a face or wear ply of oak. The back
22 component is just a core to hold the sample together.

23 In this engineered construction, several
24 thin sheets of hardwood are stacked, glued and hot
25 pressed together. Each layer is applied in an

1 alternating direction to the one under it in order to
2 reinforce both strength and stability.

3 As a result, multilayered wood flooring is
4 less susceptible to expansion, contraction and
5 warping. It is considered the most dimensionally
6 stable wood flooring product and can be installed in
7 locations that are not suitable for wood, other wood
8 flooring products, specifically solid wood flooring.

9 Unlike solid wood flooring, multilayered
10 wood flooring can be installed below grade, on
11 concrete and in other locations susceptible to
12 temperature or humidity fluctuations. Multilayered
13 wood flooring is also environmentally friendly because
14 it is a more efficient use of timber.

15 For example, where only about 20 to 30
16 percent of a log will end up in a finished segment of
17 solid wood flooring, approximately 70 to 80 percent of
18 the log will end up in a finished multilayered wood
19 product. For these reasons, the use of multilayered
20 wood flooring has grown rapidly in the past decade.
21 It now represents about half or more of the wood
22 flooring products sold in the United States.

23 But we are not unique here in the United
24 States. The production and use of multilayered wood
25 flooring has grown tremendously in China as well. By

1 our estimates, there are now more than a thousand
2 multilayered wood flooring producers in China of
3 varying sizes. Some are small, what we would call mom
4 and pop shops, while others are among the largest and
5 most well equipped producers in the world.

6 As the industry in China has grown, so has
7 the volume of imports from that country and the share
8 of the total U.S. market that has been captured by
9 these imports. In recent years and up to the present
10 time, this fact has fundamentally altered the domestic
11 market for the products and has posed and continues to
12 pose a very basic threat to the continuing competitive
13 viability of the domestic manufacturing industry.

14 In just the past three years, Mannington has
15 experienced a substantial reduction in our production,
16 in our commercial shipments, in our revenue and in our
17 bottom line financial position. We have had to lay
18 off more than one-half of our workforce and have shut
19 down entire production lines. Our capacity
20 utilization rate sits at below 50 percent. To a very
21 significant degree, this is directly attributable to
22 the unfair competitive pressures of imports from
23 China.

24 Through the course of Mannington's history,
25 we have seen the flooring market in both good times

1 and bad. We've survived through two world wars, the
2 Great Depression and many recessions, but the playing
3 field has now changed and a very real concern on our
4 part, on the part of our workers and on the part of
5 the communities that we live is that the tide of
6 cheaply priced and we believe unfairly traded imports
7 from China will do what two world wars, the Great
8 Depression and numerous recessions have not.

9 Imports from China are literally forcing
10 this industry towards a race to the bottom. If this
11 continues at the pace set over the last few years at
12 some point soon we will no longer be able to compete
13 and will need to exit the industry.

14 Since wood flooring is primarily a
15 residential building product, we have always been
16 closely tied to such indicators as housing starts,
17 mortgage rates and disposal income levels. When Tom
18 Davis, our company's president and chief executive
19 officer, appeared before the Commission in the fact
20 finding investigation of competitive conditions in the
21 industry back in 2007 he noted that we were at the
22 front end of another very difficult time, and he
23 stated that the bad time -- through lasting damage to
24 this industry because it is so largely driven by
25 something that wasn't present in the market even as

1 recently as five years ago -- imports from China.

2 Unfortunately, Tom was a very good predictor
3 of what was around the corner. No doubt, the severe
4 troubles in the housing market over the past two years
5 and this prolonged economic crisis have been a black
6 cloud over this manufacturing industry, like so many
7 other manufacturing industries. However, were it just
8 a more pronounced market slide, much like what we have
9 experienced in a number of past recessions, we could
10 ride the dip in anticipation of a market upswing.
11 That, after all, is the nature of manufacturing.

12 But, the substantial increase in imports
13 from China and the severe and continuing price erosion
14 caused by these imports has introduced a new reality,
15 and this new reality -- a flood of cheaply priced,
16 unfairly traded imports from China -- presents a
17 fundamental, if not unsurmountable, obstacle to the
18 domestic industry's ability to recover its competitive
19 footing even when underlying economic conditions in
20 this country turn more favorable.

21 U.S. manufacturers have the production
22 capacity, engineering skills, design ingenuity and
23 service base to remain extremely competitive with any
24 producer in the world. We are not looking to knock
25 competition out of the market. We are asking only for

1 parity, for a level playing field and for trade on
2 fair conditions.

3 On behalf of Mannington Mills and all of our
4 dedicated employees, I appreciate the opportunity to
5 present this testimony and I look forward to any
6 questions you might have. Thank you.

7 MR. LEVIN: Thank you, Kim. Our next
8 witness will be Dan Natkin. Dan?

9 MR. NATKIN: Thank you and good morning. My
10 name is Dan Natkin. I am the director of the Wood
11 Business for Mannington. I've been with Mannington
12 since 2006, and in my position I'm responsible for the
13 marketing and sales of multilayered wood flooring.

14 I have direct daily personal contact with
15 major customers in the U.S. market. Mannington's
16 marketing personnel responsible for these products
17 report directly to me, and I personally review sales
18 reports, market pricing data, customer call reports,
19 emails and other correspondence from our sales force
20 concerning activity and price at our customer accounts
21 and reports of prices offered in the U.S. market by
22 Mannington's foreign and domestic competitors.

23 Before joining Mannington I worked for
24 Armstrong World Industries in a series of managerial
25 positions, including Global Wood Sourcing Manager with

1 responsibilities for global wood sourcing from China,
2 from Europe, South America and Indonesia, and Product
3 Manager for Wood Flooring.

4 I'm very familiar with all of the domestic
5 manufacturers of multilayered wood flooring and many,
6 if not most, of the foreign manufacturers as well,
7 including those in China. I guess you can say that in
8 my eight plus years in wood flooring I've accumulated
9 a tremendous amount of frequent flier miles.

10 When I first started in this business, China
11 was a bit player for multilayered wood flooring. We
12 saw very little Chinese product in the U.S., and what
13 we did see was very basic, rather low quality
14 flooring. By the time I joined Mannington in 2006,
15 China had grown to become the dominant exporting
16 country.

17 Now China is the dominant player in the U.S.
18 market, largely at the expense of domestic
19 manufacturers, with a greater market share than any
20 single domestic manufacturer. For the most part, the
21 quality of the product that we see from China is very
22 good.

23 When Jeff first sent us a draft of the
24 petition for our review, Kim, myself and our CEO, Tom
25 Davis, all focused in on the 34.7 percent market share

1 that he recorded for the first half of 2010. And
2 although that number by itself represents a doubling
3 of the market share than what was noted for 2007 of
4 17.7 percent, we all instantly had the same reaction.
5 This smells low.

6 While I understand why Jeff felt compelled
7 to put in a conservative calculation based on
8 particular data sources and I realize it smells low
9 doesn't quite rise to the level of a quantitative
10 analysis, there's a strong consensus among domestic
11 manufacturers and distributors with whom I deal that
12 imports from China now account for something in the
13 general neighborhood of one out of every two square
14 feet of product sold in the U.S. market.

15 I just returned from China last week. One
16 manufacturer there joked with me that our estimates of
17 Chinese imports were exceedingly low. You heard Kim
18 refer to the volume of imports from China in such
19 terms as tide and flood, and from what I see and hear
20 on the ground and in the markets, speaking with my
21 sales people and our customers, those are completely
22 apt descriptions. It's bad, and it continues to get
23 worse.

24 Regularly over the course of the past
25 several months I've seen new lows in pricing for

1 imports from China. Every time we think the bottom
2 has been found in pricing, a new low emerges. The
3 phrase I've heard myself saying just too many times
4 this year is this is ridiculous.

5 Just this week I received an email from a
6 major retailer quoting a China sourced three-eighths
7 inch red oak faced product very similar to the one
8 that would be sitting in front of you right now. This
9 is the bread and butter product for a domestic
10 producer such as ourselves and a basic large volume
11 product from China.

12 It's also the first product for which the
13 Commission requested quarterly pricing data in its
14 questionnaires. The quote was for \$1.47 per square
15 foot from a warehouse in the U.S., so that was landed
16 in the U.S. They asked if we can match it, and we
17 can't. This is a customer that we do a tremendous
18 volume with every year.

19 If you look at our questionnaire response
20 you'll see the price disparity very clearly. I can't
21 even begin to understand how they can ship the face
22 materials halfway around the world, convert it into a
23 finished product, ship it back, pay a duty, if they're
24 paying the duty, and sell it at a price so far below
25 the cost.

1 While we will on occasion meet an
2 outlandishly low price on Chinese product with our own
3 domestically produced product, this is primarily in
4 order to keep our production lines running at some
5 sort of reasonable level and to maintain our customer
6 base. We're reaching the point where this is no
7 longer economically feasible.

8 And, yes, we do import product from China in
9 order to maintain our customer base, which can easily
10 get the product from another source. It's an economic
11 imperative. We would certainly prefer to make the
12 products in our own plants in North Carolina and
13 Alabama.

14 While visual was historically the driver
15 with the end consumer, price has now become the driver
16 in the market. While a product meets the visually
17 pleasing and at least good enough as a home center
18 recently stated to me regarding quality, there's no
19 doubt that price drives the market. China drives the
20 price.

21 Our petition details several reasons which
22 conspire to enable Chinese multilayered wood flooring
23 manufacturers to sell the product so cheaply at such
24 injurious prices in the U.S. Let me put aside for
25 these purposes the extremely low wage rates for

1 Chinese workers.

2 First, we detail in the petition imports of
3 multilayered wood flooring from China are sold in the
4 U.S. at dumped prices. The dumping margin in the
5 petition is quite high, well over 100 percent.

6 Second, as we also detail in the petition,
7 manufacturers and exporters in China gain an unfair
8 competitive advantage through the receipt of subsidies
9 at both the national and provincial levels.

10 Aside from those specific subsidies
11 discussed in Volume 3 of the petition, the Foreign
12 Agricultural Service in Beijing in a July 2010 report
13 reviewed a series of programs that are specifically
14 aimed at stimulating the expansion of China's forestry
15 sector, the base material for its wood processing
16 industries.

17 It also notes that the Government of China
18 recently increased the export tax rebate to 9 percent
19 for products classified under Heading 4412 of the
20 Harmonized Tariff Code, which includes multilayered
21 wood flooring. The FAS noted that this increase was
22 "to encourage exports in 2010."

23 Third, regardless of whether the Commerce
24 Department determines a currency manipulation as a
25 countervailable subsidy, it is certainly a marketplace

1 reality. It's awfully hard to compete on a level
2 playing field when the exchange rate is held at 10,
3 20, maybe 40 percent lower than what it should be
4 under market exchange principles.

5 Fourth, we have a state-of-the-art
6 manufacturing facility here in the U.S. that we've
7 invested millions of dollars in to produce the highest
8 quality multilayered wood flooring products at the
9 least cost. We believe at our core that we can
10 compete globally in multilayered wood flooring on a
11 level playing field.

12 The Chinese market represents a tremendous
13 market for growth with a growing consumer base that
14 desires wood, but we can't penetrate their market.
15 Not because of price. The foreign manufacturers
16 actually sell the same products they export to the
17 U.S. for more money in the Chinese domestic market.

18 However, we have to contend with a 40
19 percent import duty on wood flooring coming from the
20 U.S. to China while the Chinese have an 8 percent or
21 less coming into the U.S. Many of the Chinese
22 manufacturers manipulate the HTS codes or the
23 construction of the product to enjoy a duty-free
24 status into our market.

25 Fifth, domestic manufacturers and

1 distributors that handle both domestically
2 manufactured and Chinese products strongly believe
3 that Chinese manufacturers are well practiced at
4 cloning U.S. products. Major manufacturers in China
5 have simply cannibalized design aesthetic innovations
6 first formulated by domestic producers at significant
7 expense over years of painstaking trial and error.

8 As our CEO, Tom Davis, testified back in
9 2007, we pay the price of failure for all the trials
10 out there that don't make it. They're scooping up all
11 of the winners. It's no less true today than it was a
12 few years back. In fact, we include as an exhibit to
13 our petition an article from a trade publication,
14 *Floor Covering Weekly*, in which a U.S. distributor
15 just comes right out and says that this is in essence
16 his company's business strategy.

17 We cannot attend a single trade show without
18 Chinese manufacturers photographing our new products
19 and launching clones within months of our
20 introduction. This was recently exhibited with a
21 unique product we spent time developing for more than
22 three years. Within two months of its introduction at
23 a major trade show, clones were being exhibited by
24 more than one major Chinese manufacturer.

25 In closing, I want to circle back to a point

1 that Kim touched on a few minutes ago. The greatest
2 and the very real danger is that no matter which way
3 the economy turns in the coming months, this industry
4 will struggle mightily to retain a viable, competitive
5 future.

6 Should the housing industry begin to show
7 signs of recovery, it's more than likely that any
8 market expansion will be dominated by cheaply priced
9 imports of multilayered wood flooring from China. On
10 the other hand, should the economy remain stagnant or
11 deflated domestic manufacturers will continue to lose
12 market share to cheaply priced imports from China.
13 Either way, it's a losing proposition for U.S. based
14 manufacturers such as ourselves unless something is
15 done to address the issues outlined in the petition.

16 I thank you for your time and attention this
17 morning, and I look forward to answering any questions
18 you may have.

19 MR. LEVIN: Thank you very much, Dan. Our
20 next witness will be Don Finkell. Don?

21 MR. FINKELL: Good morning, investigation
22 staff. My name is Don Finkell, and I am CEO of Shaw
23 Hardwood and its independent subsidiary, Anderson
24 Hardwood Floors.

25 I am also immediate past chairman of the

1 National Wood Flooring Association and, along with my
2 colleague, Kim Holm, whom you heard from a few minutes
3 ago, a current member of that association's board of
4 directors.

5 I'm also on the board of the Hardwood
6 Federation, an umbrella organization representing the
7 majority of trade associations engaged in the
8 manufacturing, wholesaling or distribution of North
9 American hardwood lumber, veneer, plywood, flooring
10 and related products, although I do not speak for them
11 today, only for Anderson and Shaw Industries.

12 I was closely involved in the development of
13 the Lacey Act Amendments that were approved by
14 Congress in 2008, and for better or worse I am
15 considered in some quarters to be the public face of
16 this incredibly important legislation with the wood
17 flooring industry because it seeks to stop importation
18 of illegally harvested wood. In sum, I have been in
19 the industry longer than most anyone here, longer than
20 I sometimes care to think about. In such a real
21 sense, I have sawdust in my blood.

22 Anderson Hardwood Floors was started in 1946
23 by my wife's grandfather, L.W. Anderson. It
24 progressed from a seller of cut-to-size hardwood
25 plywood to a vertically integrated manufacturer of

1 branded, prefinished wood flooring over the next three
2 generations and 62 years. Company management worked
3 for years to build a sound product and a respected
4 name in the marketplace.

5 Starting in 1960, the Anderson family worked
6 in conjunction with competitors to develop voluntary
7 guidelines for the manufacture of product to ensure a
8 minimum quality standard for safety and performance of
9 the product. Voluntary standards worked because of
10 the integrity of the industry.

11 In later years, Anderson introduced
12 significant product advancement that reached worldwide
13 acceptance. A particular point of pride for me
14 personally was the creation of a hand scraped design
15 where the face layer of the wood is literally scraped
16 by hand with a draw knife to give it an historic look.
17 We do this using paid inmate labor.

18 The last time I appeared before the
19 Commission was to testify at the hearing held during
20 the course of the fact finding investigation regarding
21 competitive conditions in the industry. I noted in my
22 testimony that just three weeks before the hearing,
23 after nearly 62 years in business, the Anderson
24 family, upon my recommendation, sold out to a larger
25 competitor, Shaw Industries.

1 I am very proud now to be a member of the
2 Shaw team, and I have tried as hard as I can to carry
3 on the Anderson family tradition of hard work and
4 ingenuity in this new setting. A large part of my
5 decision to sell the family business to Shaw was the
6 competitive environment that began to emerge at the
7 time. I felt we needed the support of a larger
8 partner in order to survive.

9 Although the residential housing industry,
10 which is such an important determinant of this
11 industry, was going through an incredible boom, a
12 powerful move forth in the form of Chinese imports
13 emerged almost overnight on the scene. And, as the
14 Commission noted in its report in that investigation,
15 Chinese industries emerged as the largest foreign
16 supplier of engineered wood flooring to the U.S.
17 market and the most significant competitors in the
18 U.S. industry in this market.

19 Much has changed since that hearing in
20 October 2007. The U.S. economy was soon to enter one
21 of its most difficult periods, triggered in large part
22 by troubles in the housing industry. The other big
23 change was the explosion of Chinese imports since the
24 ITC last looked at the wood flooring industries in
25 2007.

1 I think our petition lays out the numbers as
2 cleanly as possible, and Kim and Dan have outlined
3 some of the reasons why Chinese imports can enter the
4 U.S. at such cheap prices underselling domestically
5 manufactured products, taking sales and customers and
6 capturing an increasing portion of the U.S. market.

7 But there is one aspect that Dan touched on
8 a bit that I would like to go into a little further
9 because I think it so well illustrates what U.S.
10 manufacturers are up against. The successful
11 marketing of the multilayered wood flooring brand
12 takes a great amount of time, energy, creativity and,
13 of course, money. Sometimes these investments pay
14 off. Just as often they don't.

15 Just this year our company dropped 30
16 percent of its product line because sales did not
17 materialize as forecast when the products were
18 introduced. That's the nature of the beast in this
19 business, because what we are talking about in the end
20 is a product that has to look good in someone's home.

21 I'm going to use as an example one of our
22 leading collections, Casido Blanco. It is a
23 three-eighths inch thick, five inch wide wood floor
24 with a Spanish hickory face. That's our trade name
25 for copaiba lansdorfi. It is a beautiful Anderson

1 product.

2 Our marketing of this collection involves
3 brochures, websites, trade shows and displays, among
4 many other elements, and after all this time and
5 effort a Chinese company comes along with a camera,
6 takes a photograph of the product and its specs and
7 simply clones the product.

8 They make one \$15 hand board of their cloned
9 product and set it up in front of our \$3,000 display,
10 but with a much cheaper selling price. Just to
11 demonstrate, here is a sample of the product and of
12 the Chinese clone, as well as our brochure and a photo
13 of the display.

14 MR. LEVIN: With the Chair's permission, may
15 we approach the staff to circulate it?

16 MS. DeFILIPPO: Yes, please. Thank you.

17 MR. FINKELL: You'll notice that they even
18 have the exact same color names on these products, and
19 of course it has the same warranty.

20 Were it only that easy for us. This
21 "business practice" may not be dumping as I understand
22 what dumping is, and it may not be a countervailable
23 subsidiary as I understand what those are, but it is a
24 fact of competition in this market and one that makes
25 it very hard for us to compete fairly.

1 My concern is not just what has happened in
2 the past, but what is likely to happen in the near
3 future. For example, Shaw has had some success in the
4 past year with a new product containing an HDF core,
5 high density fiberboard. It has been a bright spot
6 for us in an otherwise dismal environment, but I know
7 that our window is short. Soon this product also will
8 be cloned and sold here at much cheaper prices.

9 I would like to make one last point. We did
10 not file this petition to kick China out of the U.S.
11 market. Our trade with China and our relations with
12 China are important both to our company and to my
13 company.

14 It's no secret that we have a relationship
15 with one of the larger manufacturers in China, Power
16 de Core. We don't presently import from them. In
17 fact, we no longer import product from China, but we
18 do have a licensing and distribution agreement with
19 Power de Core for the sale of product with our brand
20 in the Chinese domestic market. That is a huge and
21 important potential market for us and for U.S.
22 manufacturers.

23 Dan earlier made the point that because of
24 the Chinese duty and other fees like the value added
25 tax it is extremely difficult to get U.S. products

1 into that country. That's one of the reasons why we
2 entered into this agreement with Power de Core to at
3 least establish some presence and name recognition
4 there.

5 But the disparity between the very high
6 barriers to entry into that market and the low
7 barriers for their entry into our market should not
8 become even more exaggerated by unfair trade
9 practices. Injecting at least that much fundamental
10 fairness into the equation is what we hope will come
11 out of these investigations.

12 I want to thank the Commission for
13 instituting this investigation. I think the facts and
14 figures that will be developed will speak for
15 themselves, and I look forward to answering your
16 questions. Thank you.

17 MR. LEVIN: Thank you very much, Don. I
18 truly hope that the investigation team was able to
19 distinguish a moment ago between the lawyer and the
20 piece of wood. It could be a close call sometimes.

21 Our next witness will be James Dougan of
22 Economic Consulting Services. James, you're good to
23 go.

24 MR. DOUGAN: If I could have one moment? I
25 have to take a slight pause here to resolve a computer

1 issue. Pardon me.

2 (Pause.)

3 MS. DeFILIPPO: Mr. Levin, while we're
4 taking a break to fix the computer issue, would you
5 like this to be added to the transcript as an exhibit?

6 MR. LEVIN: Yes, Madam Chair, and may I also
7 add the investigation team -- Don, let me know if this
8 is correct -- is welcome to keep the samples that we
9 have circulated as evidence on the record.

10 MS. DeFILIPPO: Great. Thank you very much.
11 We will note the ECS document will be Exhibit 1.

12 MR. LEVIN: And by holding onto the wood
13 samples, you're going to help Don out going through
14 security on his way home tonight.

15 MR. FINKELL: Thank you very much.

16 MR. DOUGAN: Thank you for patience in
17 resolving my computer going to sleep.

18 Good morning. I'm Jim Dougan from Economic
19 Consulting Services appearing on behalf of the
20 Coalition for American Hardwood Parity. I will
21 summarize the relevant economic data the Commission
22 and staff should consider in making their
23 determinations on current material injury and threat
24 of material injury.

25 In short, I believe that the available

1 record evidence provides a more than reasonable
2 indication that the U.S. multilayered wood flooring
3 industry is suffering current material injury by
4 reason of subject imports from China. The evidence
5 likewise provides a more than reasonable indication
6 that the domestic industry is threatened with further
7 material injury by reason of subject imports from
8 China.

9 The Commission is already familiar with the
10 multilayered wood flooring product and industry from
11 the Section 332 investigation that was completed in
12 2008. While the questionnaire record in the present
13 investigation remains incomplete, data available from
14 public sources demonstrates that the adverse trends
15 described in the 332 case continued throughout the
16 period of investigation and have become even more
17 injurious to the domestic industry.

18 Please note while we are still compiling the
19 questionnaire data, so far we have identified a number
20 of issues with the manner in which certain parties
21 have completed the questionnaire, specifically
22 regarding consistency in units of reporting volume and
23 value. Staff are no doubt aware of these issues
24 themselves, but we respectfully ask that best efforts
25 be employed to resolve these issues such that there is

1 a reliable basis for the Commission's preliminary
2 determination. We stand ready to assist with these
3 efforts as needed.

4 With respect to conditions of competition,
5 the primary demand driver for multilayered wood
6 flooring has traditionally been housing starts.
7 Demand for the subject product has closely tracked
8 this indicator with a roughly six month lag. As noted
9 in the 332 report, multilayered wood flooring was the
10 fastest growing segment of the wood floor industry
11 from 2002 to 2006, benefitting from the housing boom
12 to grow by over 100 percent.

13 Imports of multilayered wood flooring
14 benefitted even more, increasing by 350 percent over
15 that same period with the primary import source being
16 China. As Exhibit 1 shows, however, due to the
17 bursting of the housing bubble by the subprime
18 mortgage crisis housing starts have fallen
19 precipitously since 2006 through the beginning of the
20 period of investigation in 2007 and through to the
21 present day.

22 While there was a temporary improvement in
23 late 2009 and the first half of 2010, this was
24 attributable to the federal home buyer tax credit,
25 which has since expired, and not the early stages of a

1 longer term recovery in the market. As you can see,
2 since the middle part of this year housing starts have
3 declined yet again.

4 The second key macro economic indicator,
5 spending on remodeling activity, also declined
6 substantially over the POI. See Exhibit 2. Another
7 key demand indicator is disposable income. Real per
8 capita disposal income has been effectively stagnant
9 in real terms since the beginning of the POI. See
10 Exhibit 3.

11 The home ownership rate has also declined
12 over the POI. See Exhibit 4. This is significant
13 since installation of new flooring is likely to be
14 done by homeowners, not by renters. Now, while all of
15 the key demand drivers and macro economic indicators
16 would seem to point to a decline or at best weak
17 growth in the multilayered wood flooring market,
18 subject imports from China have continued to grow
19 strongly.

20 Two other key conditions of competition have
21 contributed to this growth in Chinese imports. First,
22 due to the reverse engineering and project cloning
23 discussed by our industry witnesses just a few moments
24 ago, U.S. produced multilayered wood flooring and the
25 subject imports are interchangeable when made to the

1 same specifications.

2 Second, as noted in the 332 report, the
3 increased market power of large domestic retailers
4 such as the home centers and their logistical ability
5 to source product overseas has contributed to import
6 penetration and weakened the ability of U.S. producers
7 to negotiate price.

8 The consequences of these conditions of
9 competition can be seen in the injurious volume effect
10 of Chinese imports. As shown in the petition and at
11 Exhibit 5, subject import volume is undeniably
12 significant. It increased from 40.4 million square
13 feet in 2007 to 71.2 million square feet in 2009, an
14 increase of 76 percent.

15 It increased again to 42.9 million square
16 feet in the first half of 2010, which on an annualized
17 basis equates to 85.8 million square feet or an
18 additional one year increase of 20.5 percent and a 112
19 percent increase from the beginning of the POI in
20 2007.

21 The increase in subject imports came in a
22 market that grew in total by only 2.7 percent from
23 2007 to 2009. Accordingly, subject import market
24 share nearly doubled over the POI, from 17.7 percent
25 in 2007 to 34.7 percent in the first half of 2010, an

1 increase of 17 percentage points. See Exhibit 6.

2 Over the same period, U.S. producers' market
3 share declined from 65.9 percent to 50.3 percent or a
4 decline of 15.6 percentage points. In other words,
5 the vast majority of subject imports' significant
6 gains in market share came directly at the expense of
7 the domestic industry. If the market share estimates
8 here are indeed low, as U.S. producers and apparently
9 at least one Chinese producer believe, this volume
10 injury would be even greater than shown in Exhibit 6.

11 How did imports from China achieve these
12 massive gains in market share? The answer is simple.
13 Price. Petitioners submit that Chinese imports are
14 dumped, subsidized and benefit from the Chinese
15 Government's manipulation of exchange rates, and for
16 these reasons -- not more efficient production and not
17 because of lower wage rates -- can be sold at prices
18 far below those achievable by U.S. producers.

19 Furthermore, as discussed earlier,
20 multilayered wood flooring from China is
21 interchangeable with domestic merchandise when made to
22 the same specification and has often been cloned from
23 domestic industry design.

24 In the U.S. market, subject imports compete
25 head-to-head for the same customers and in the same

1 channels of distribution as the domestically produced
2 merchandise, or at least they did. Increasingly, U.S.
3 producers have lost the opportunity to even bid for
4 business with certain customers who are already aware
5 that fully interchangeable Chinese imports are
6 available at a much lower price.

7 The price competition from subject imports
8 began early in this decade and has only intensified
9 since. The 332 report noted that despite the housing
10 boom from 2002 to 2006, pricing for U.S. flooring
11 producers, including multilayered wood flooring
12 producers, did not keep up with the increase in prices
13 received by producers of other materials and
14 components used in residential housing construction.

15 The Commission also identified a decline in
16 U.S. producer prices relative to the price of hardwood
17 lumber, which is the chief raw material input for
18 multilayered wood flooring, indicating increased cost
19 pressures that prevented U.S. producers from passing
20 through increased raw material prices to consumers.
21 It attributed the low growth in producer prices even
22 during the housing boom to increased competition from
23 imports.

24 This adverse situation has only worsened
25 since the housing bust and over the POI. While the

1 questionnaire pricing data record remains incomplete
2 and much of the pricing data in the petition are
3 confidential, publicly available data tell the story
4 just as effectively. See Exhibit 7.

5 The average unit value of subject imports
6 from China decreased from \$1.81 per square foot in
7 2007 to \$1.44 per square foot in the first six months
8 of 2010, a decline of approximately 20 percent.
9 Between these same two periods, hardwood lumber prices
10 declined by less than 5 percent.

11 In short, if the domestic industry was
12 facing price pressure during the housing boom, such
13 pressure became even greater during the POI and now
14 amounts to significant injurious underselling and
15 price suppression. The combination of injurious
16 volume effects and price effects by reason of subject
17 imports from China has exacerbated the unfavorable
18 effect of the economic downturn and housing bust and
19 has resulted in adverse impact on the domestic
20 industry.

21 Petitioners note that any improvements in
22 the market observed in the first half of 2010 were
23 attributable to the federal home buyer tax credit and
24 are not evidence of a long-term recovery. The fact is
25 the available evidence provides more than a reasonable

1 indication that domestic producers are suffering
2 current material injury by reason of subject imports.

3 Moreover, the statutory criteria weigh in
4 favor of an affirmative determination of threat of
5 material injury as well. First, there has been a
6 significant increase in the volume and market
7 penetration of subject imports, and this trend has not
8 abated even as the market softened. In fact, subject
9 import market share reached its highest level, 34.7
10 percent, during the first half of 2010.

11 Second, recent pricing trends such as the
12 fact that Chinese import average unit value reached
13 its lowest level during the first half of 2010 and the
14 market power of the major U.S. retailers suggests that
15 subject imports will continue to enter the market at
16 undersold and injurious prices.

17 Third, Chinese manufactures have substantial
18 excess capacity with which to export to the U.S.
19 market as shown at Exhibit 8. The capacity for the 10
20 producers in this exhibit alone is more than double
21 the peak U.S. apparent consumption achieved during the
22 POI in 2008 and yet, as noted in the footnotes to the
23 relevant pages in the petition, we believe these
24 estimates to be conservative.

25 Alternative markets are unlikely to be able

1 to absorb these exports as the near term macro
2 economic trends in the major industrialized countries
3 appear no more favorable than those in the United
4 States.

5 Finally, the practice of product cloning by
6 Chinese manufacturers has compounded the negative
7 effect on the U.S. industry and will lead to continued
8 injury in the future. By playing a key part in the
9 adverse impact on the domestic industry's revenues and
10 operating profits during the POI, it has diminished
11 the funds available for future product development
12 efforts.

13 What's more, this practice has created a
14 disincentive to use whatever funds are available for
15 such investments as new products are copied as soon as
16 they arrive in the market and undersold before they
17 are able to generate returns for the companies who
18 spent the money to develop them.

19 In sum, the Commission should make an
20 affirmative determination with respect to current
21 material injury and with respect to threat of material
22 injury. Thank you.

23 MR. LEVIN: Thank you, Jim. Our last
24 witness will be me.

25 Good morning. I first want to thank the

1 investigation team for their work on these
2 investigations, and I want to thank Kim and Don and
3 Dan and the UCS team and John Cacaro for all their
4 assistance. It has been a great professional and
5 personal privilege to work with them over the past few
6 months.

7 I want to wrap up our witness panel by just
8 touching on a few of the legal issues presented in
9 this proceeding. First, subject merchandise and
10 domestic like product. We have a pretty detailed
11 description in the petition, and working with Commerce
12 over the past few weeks the scope language has been
13 modified somewhat to specifically exclude solid wood
14 flooring and bamboo and cork flooring and laminate.
15 That was the intention from the get go, but we just
16 wanted to throw in the specific exclusions.

17 We don't believe that these products should
18 be included on the domestic side either and not within
19 the definition of domestic industry. While we have
20 walked through the six factor analysis in the petition
21 and supplemental submissions regarding solid wood
22 flooring and laminate, and not knowing whether these
23 issues will be raised by any other party today or
24 later in these investigations, we would be happy to
25 provide further detail in our brief.

1 For present purposes, I will say that while
2 there are no clear dividing lines between multilayered
3 wood flooring products, there are clear dividing lines
4 between multilayered wood flooring and other products
5 I just mentioned, such as in physical characteristics,
6 interchangeability, producer and customer perceptions,
7 common manufacturing facilities and production
8 processes.

9 When the Commission had the occasion to
10 investigate the wood flooring industries a few years
11 back in the Section 332 investigation, it was clear
12 that solid wood flooring was handled distinctly from
13 engineered wood flooring, and it was clear that the
14 other products, such as bamboo and cork and laminate,
15 were not even considered within the purview of the
16 investigation. As I noted a few moments ago, we would
17 be happy to review these matters in greater detail in
18 our brief.

19 The second issue and one that is
20 particularly nettlesome is how to accurately gauge the
21 volume of subject imports. The classification of
22 multilayered wood flooring, indeed wood flooring as a
23 whole, is a morass under chapter 44 of the HTS. Among
24 the many difficulties is the fact that many of the
25 eight and 10 digit subheadings, particularly within

1 subheadings 4412.31 and 4412.32, encompass both
2 plywood and multilayered wood flooring.

3 There are two new statistical subheadings
4 that seem to apply solely to this product, and that
5 has been helpful, but those new classifications were
6 only implemented in 2009, making an apples to apples
7 comparison from the beginning of the period of
8 investigation tricky.

9 Moreover, the numbers recorded under those
10 new classifications especially during the first half
11 or so of 2009 were so low and yielded such
12 unrealistically low average unit values even for
13 Chinese imports that it's really difficult to use
14 those early numbers as a reliable database.

15 And I say that knowing that the numbers on
16 their face would demonstrate an incredible surge in
17 the volume of imports between the first eight months
18 of 2009 and 2010, from about seven million square feet
19 to about 35 million square feet. I'd love to argue
20 those numbers.

21 The other problem is that those two
22 subheadings don't cover all multilayered wood
23 flooring. Just to take one example, multilayered wood
24 flooring with a birch face falls under a different
25 classification, 4412.32.05, and that's a high volume

1 product.

2 Also, because it's a duty-free
3 classification we have strong reason to believe, as
4 does Customs, that there have been significant
5 instances of misclassification under that subheading
6 in order to avoid the 8 percent duty on the other
7 subheadings I just mentioned.

8 For the petition, we used published data
9 from a well-established market consultant. Now, I
10 can't swear that those numbers are 100 percent
11 accurate either, but they appear right and realistic
12 on the basis of what we see in the market. We submit
13 now, as we did in the petition, that the Catalina
14 report numbers represent as of now the most reliable
15 and accurate data, at least for the 2007 through 2009
16 period.

17 Now, I'm sure there will be some discussion
18 and some questions as the day goes on about how to
19 measure imports, and I know that the investigation
20 team has put together a detailed rundown of the data
21 for all the subheadings that may encompass subject
22 imports.

23 With the staff's permission, we look forward
24 to providing a full response to the best of our
25 abilities on that rundown and on the import data as a

1 whole, but one thing I think is clear and if I may say
2 unassailable. The volume of subject imports is
3 significant both in absolute terms and relative to
4 production and consumption in the U.S., and as we
5 detailed in the petition the share of the market held
6 by imports from China has increased significantly over
7 the period of investigation.

8 As Dan noted earlier, the 34 percent market
9 share figure put down in the petition doesn't smell
10 right to the people that are actually in the market
11 and see on a daily basis what's going on there. Let
12 me tell you. When I sent the draft out to the clients
13 and they come back and say Jeff, this just doesn't
14 smell right to us, that makes me very nervous because
15 I'm like really working through the data here. And
16 I'm guessing they're right. The petition number is
17 likely a conservative number, but even a conservative
18 number shows a doubling of market share over the
19 period of investigation.

20 One last point regarding factors other than
21 subject imports. There are two factors that
22 potentially come into play here: Nonsubject imports
23 and other economic factors. On the nonsubject import
24 issue side, China so dominates the import share that
25 we assert it is not plausible that the injury suffered

1 by this industry can be attributed to nonsubject
2 sources.

3 The other issue is whether the struggles of
4 this industry can properly be attributed in whole to
5 general economic conditions, not subject imports. No
6 doubt, the collapse of the housing market, the plunge
7 in home prices, the continuing slide in consumer
8 confidence all impact this industry.

9 However, two facts remain. First, in a
10 declining market China has taken significant market
11 share from domestic manufacturers, as the slides from
12 Jim so well demonstrated. That is due to the very low
13 prices at which such imports are sold in this market,
14 which in turn is due in significant degree to unfair
15 trade practices.

16 Second, as the Commission has noted, the
17 statutory scheme clearly contemplates that an industry
18 may be facing difficulties from a variety of sources,
19 including nonsubject imports and other factors, but
20 the existence of injury caused by other factors does
21 not compel a negative determination if the subject
22 imports themselves are making more than an incidental,
23 tangential or trivial contribution to material injury,
24 and that is most certainly the case here. Subject
25 imports have certainly made more than an incidental,

1 tangential or trivial contribution.

2 To circle back to what Kim noted at the
3 beginning of this panel, if what was experienced over
4 the past several years was just a more pronounced
5 slide than what was experienced in any number of past
6 recessions, this industry, like many other
7 manufacturing industries, could ride the dip in
8 anticipation of a market upswing. That, after all, as
9 Kim noted, is the nature of manufacturing, but the
10 substantial increase in imports from China and the
11 severe and continuing price erosion caused by these
12 imports has introduced a new reality, and this new
13 reality, a flood of cheaply priced, unfairly traded
14 imports from China, presents a fundamental, if not
15 insurmountable, obstacle to the domestic industry's
16 ability to recover its competitive footing, even when
17 the underlying economic conditions in this country
18 begin to turn more favorable. On behalf of the
19 Petitioners' panel, we respectfully submit that the
20 facts and evidence presented in these preliminary
21 investigations strongly support an affirmative
22 determination. With my thanks to my colleagues on the
23 panel, and with our thanks to Madam Chair and the
24 investigation team, that concludes Petitioners'
25 witness panel.

1 MS. DEFILIPPO: Thank you very much, Mr.
2 Levin, and I'd like to take this opportunity to thank
3 the industry witnesses for coming today. It's always
4 very helpful to have people able to come and tell us
5 about their business. I know it's a lot to take away
6 a day from your business, but we do appreciate it, so
7 thank you very much. We will now turn to staff
8 questions and we will start first with Mr. Ruggles.

9 MR. RUGGLES: Good morning. Thank you very
10 much. This is Fred Ruggles, Office of Investigation.
11 A couple quick notes. Award Hardwood and Baker's
12 Creek, we going to give them any?

13 MR. LEVIN: I surely hope so. I have been
14 in contact with them. I have strongly encouraged
15 them. They are very small. I know they were even
16 overwhelmed getting the affidavit of support. I will
17 continue to push.

18 MR. RUGGLES: If anything, have them contact
19 me and I can walk them through a couple of shortcuts
20 then.

21 MR. LEVIN: Absolutely.

22 MR. RUGGLES: All right. Thanks. Okay.
23 Let's get to imports then right away. A lot is going
24 to hinge on this. So if we use the Catalina, and I'm
25 going to ask the Respondents the same thing, we use

1 the Catalina, what are we going to do for the first
2 three quarters of this year and the first three
3 quarters of 2009?

4 MR. LEVIN: Well, obviously you'll have
5 responses to the importers' questionnaire. You'll
6 also have the exports on the foreign producers side.
7 Kudos. The China Association seemed to submit a
8 pretty complete set of foreign producers'
9 questionnaires. That will serve, obviously, as one
10 statistical base for the Commission. The other
11 statistical base, as we suggest in the petition,
12 because it is what we believe to be the best
13 information available at this point, is to prorate the
14 Catalina numbers for the first three quarters of 2009.
15 It's tough to use the HTS numbers for 2009. Believe
16 me, you know, we'd be looking at, you know, maybe 10
17 million square feet of imports from China for the
18 first three quarters of 2009, compared to 40 million
19 square feet.

20 I'd love to argue that, especially when it
21 comes with a 50 cents per square foot average unit
22 value, but, I mean, we all know that's not realistic.
23 So our suggestion as the best available information is
24 to prorate the Catalina numbers for the first three
25 quarters of 2009, and then to adjust the HTS data for

1 the two multilayered wood flooring classifications for
2 2010. I know September just came out yesterday or the
3 day before. In one of the supplemental set of
4 questions that Commerce posed to us, they asked us to
5 adjust the market share tables using the HTS
6 classifications on their face instead of adjusting
7 them, and they also asked us to put in some other
8 classifications, some that fell under 4418, and I
9 couldn't leave out, if we're going to go down that
10 route, I couldn't leave out the Birch classification,
11 so as just a rough ballpark, I took 25 percent of the
12 classification that was under the Birch classification
13 and put that in.

14 You can adjust the HTS classifications any
15 one of a number of ways. As I said, I think, you
16 know, taking the two multilayered wood flooring
17 classifications, working under the best operating
18 assumption that they account for half of the
19 multilayered wood flooring imports, adding in the 4418
20 classifications and a portion of the Birch
21 classification and assuming that they account for
22 maybe 75 percent of the total imports, any of those
23 would present at least a usable basis of data in the
24 absence of something that is more definitive, and I'm
25 not sure that we're going to get something more

1 definitive.

2 We'll go back to Catalina and see if we can
3 get updated numbers. I don't think we're going to be
4 able to. Catalina issues quarterly reports. The
5 quarterly reports don't give numbers specific to
6 engineered wood flooring. The wood flooring report
7 that's in the petition from Catalina is an annual
8 issue that comes out I think in October, or November,
9 or so. So I'm not sure that there's going to be a
10 more recent report, but we'll check. If they have it,
11 we'll be happy to pass it on. I just have to thrown
12 in as the answer, any way the Commission decides to go
13 about this, we submit it's going to show that imports
14 from China are significant.

15 MR. RUGGLES: All right. Then, if you
16 would, please, when you put in your postconference
17 brief, just put in a table, what you think the import
18 table should look like, okay?

19 MR. LEVIN: Absolutely.

20 MR. RUGGLES: All right. When you get to
21 the Chinese product, this is more along so I
22 understand, all right, they're taking and cloning your
23 products. This could be any of the three of the
24 industry guys. If they're cloning it, are they using
25 U.S.-produced facial wood or are you taking something

1 from, say, Russia, from Indonesia, whatever, and
2 making it look like U.S. product?

3 MR. NATKIN: In many cases they're actually
4 sourcing the face material here in the U.S., and I'll
5 use Hickory as an example species, where they'll buy
6 Hickory from the same sources, we frequently compete
7 with them from our sources of Hickory, ship the
8 Hickory face material overseas, include it in the
9 lamination, in the construction of the product, and
10 then ship it back again. In some cases they do use
11 domestic species or they'll source out of Russia, but
12 in many, many cases they're using our own face
13 material.

14 MR. RUGGLES: So basically you're getting
15 pressure for your resources from the Chinese.

16 MR. NATKIN: Absolutely.

17 MR. RUGGLES: Would I assume the Canadians,
18 Brazilians, Indonesians are doing the same thing, or
19 are they?

20 MR. NATKIN: I can answer them individually.
21 The Brazilians tend to use their own species, so no,
22 there's no real pressure there. The Canadians, yes,
23 use similar species to us, but they're facing the same
24 struggles that we are where we run into supply issues
25 because they're being consumed by the Asians.

1 MR. RUGGLES: Okay. Thank you. And last, I
2 guess more than anything else, do you, I don't know
3 how to put this. Is the sale of your product, is it
4 cyclical yearly? In other words, in the beginning of
5 the year do you sell more than you do at the end of
6 the year? Do you sell more in the middle of the year?

7 MALE VOICE: Seasonal.

8 MR. RUGGLES: Well, but I hate to use
9 seasonal because depending on where you are, you know,
10 it could be -- that's why. I mean, is there like a
11 certain time period? A certain monthly period? Is
12 there a certain quarterly period? Is there something
13 in there that's different?

14 MR. FINKELL: This is Don Finkell. We used
15 to see a pick up in the spring, and then a little bit
16 of a drop off in the summer and a bigger pick up in
17 the fall, and then, of course, you know, the winter
18 months, you know, December, January, February, were
19 probably the lowest, but it was not dramatically up
20 and down, it was, you know, more of a shallow curve.
21 Maybe the busiest period is 25 percent busier than the
22 least period.

23 MR. RUGGLES: All right. So when we're
24 looking at the first three quarters -- that's why I
25 was pushing so hard to go three quarters, so we don't

1 have something. We can look at that as being fairly
2 indicative of the year and of the period.

3 MR. FINKELL: Yes. I mean, I would believe
4 that would be true.

5 MR. RUGGLES: All right. Thank you.

6 MS. DEFILIPPO: Thank you, Mr. Ruggles. I
7 will now turn to Mr. Fetzer, our Economist.

8 MR. FETZER: Thanks. Jim Fetzer, Office of
9 Economics. I'd like to thank everyone for coming
10 today, and just have a few questions that your
11 testimony motivated. One thing is, and actually, this
12 is more motivated from the Respondents' opening
13 statement, they made a statement, I believe,
14 indicating that the domestic industry depends more on
15 the builder market, so I'm wondering, what's the role
16 of the builder market and the replacement market for
17 U.S. demand? Is it different for imports, or is it
18 basically about the same? I did note in your exhibits
19 you focused on housing starts which seemed to me to
20 focus on the building side, but I'd just like to, if
21 we could have further elaboration on that.

22 MR. HOLM: You know, wood flooring, all wood
23 flooring goes into both new construction and
24 replacement market. The imports, the Chinese imports
25 play directly in both of those channels, just as we do

1 from our domestic capabilities, if that answers your
2 question.

3 MR. FINKELL: This is Don Finkell. If I
4 could add to what Kim said. I think the answer is
5 somewhat company-specific. Some companies tend to be
6 more focused on the builder market, some companies
7 tend to be more focused on the remodel market, but all
8 of us fell to both of those markets. So historically
9 when you saw a decline in the builder market, you
10 would see an increase in the remodel market because
11 people couldn't move, you know, to a new home, so
12 they'd fix up the home they were in. We've seen kind
13 of a double whammy with this recession because with
14 the subprime mortgage issues, remodeling is funded a
15 lot by second mortgages and people have not been able
16 to get that now with declining home prices. So what
17 we've seen is really both markets being depressed.
18 You know, fortunately we have products that go to
19 both, both ways, but unfortunately, both of them are
20 depressed.

21 MR. FETZER: Can you estimate what share of
22 the market is for replacement versus new building?

23 MR. NATKIN: I think that's constantly in a
24 state of flux. Historically, it's probably been in
25 the 50/50 range between remodel and new construction.

1 At the building peak boom it was probably 60 percent
2 new construction, 40 percent retail, and now it's sort
3 of inversed. It's about 60 percent remodel and 40
4 percent new construction, 35 percent new construction.

5 MR. FINKELL: And I would support those
6 numbers.

7 MR. FETZER: Thank you. Is there any kind
8 of data that we could look at so much as the housing
9 starts, for the building market, for the replacement
10 market, that we could, you know, that's out there, or
11 is it -- how do you usually figure out how well the
12 replacement market is doing?

13 MR. LEVIN: Let me just, if I may, Jim,
14 understand. Are you asking for data on housing starts
15 versus resales or are you asking for data on sales of
16 the product to each?

17 MR. FETZER: I'm just wondering what data
18 series we should focus -- so obviously, and in your
19 presentation, you said housing starts are important to
20 look at in terms of demand.

21 MR. LEVIN: Yes.

22 MR. FETZER: But that's mainly looking at
23 the building side. So is there other data out there,
24 public data, that we could look at, whether it be
25 provided by you or we could just find ourselves, that

1 we could look at how the replacement market is doing
2 or has done in the past during the POI?

3 MR. DOUGAN: Jim, this is Jim Dougan from
4 ECS. The Exhibit 2 information that I provided with
5 regard to U.S. remodeling activity is based on U.S.
6 Census Bureau data. Series C-30, which is the value
7 of private residential construction spending put in
8 place. This is the data series that is widely used,
9 particularly by the Joint Center for Housing Studies
10 at Harvard University, which is used to estimate
11 remodeling activity in the marketplace. That's how we
12 went about estimating this. That may be a place to
13 start.

14 MR. FETZER: Okay. No, I appreciate that.
15 Thanks. What else. Mr. Finkell, I believe you
16 testified regarding hand scraping that you use paid
17 inmate labor for hand scraping of your product? Did I
18 get that right?

19 MR. FINKELL: Yes, that's true.

20 MR. FETZER: Is that typical in the U.S.
21 industry? That it's manual labor versus a machine?
22 Because I, you know, on the record I think there's
23 some evidence that it might be automated to a certain
24 extent.

25 MR. FINKELL: Well, it started off, you

1 know, we brought that product to market several years
2 ago and we did it all by hand, and we still do our
3 higher end products by hand. In fact, at this point,
4 all of our products that are on the market today are
5 done by hand. In the last, you know, little bit there
6 have been some machines that have come out that do
7 some of that, you know, mechanically. It doesn't look
8 exactly the same, it's a different look, but it still
9 gives not a smooth surface.

10 MR. FETZER: Okay.

11 MR. HOLM: Yes. We also utilize, although
12 we don't have the direct relationship with the prison,
13 but we use prison labor for hand scraping our
14 domestically produced products. We're also in process
15 of producing automated machine scraped products as
16 well that we've recently introduced to the market.

17 MR. FETZER: Okay. And is there any idea,
18 Mr. Levin, of the other companies in the industry? Is
19 it similar?

20 MR. LEVIN: I am not aware offhand. I'd be
21 happy to check.

22 MR. FETZER: Okay. That would be great.

23 MR. HOLM: We think the majority of them
24 would be utilizing hand scraped.

25 MR. FETZER: Hand scraped?

1 MR. HOLM: Yes.

2 MR. FETZER: I mean hand labor hand
3 scraping?

4 MR. HOLM: Yes.

5 MR. FETZER: Yes.

6 MR. HOLM: Yes.

7 MR. NATKIN: That's just in that particular
8 visual category where, using labor to specifically
9 distress the surface of the product. For the most
10 part, the rest of our operations are highly automated,
11 and that's part of the investment that we've made in
12 the U.S., to automate the operations rather than using
13 hand labor to transfer materials from one place to
14 another. So I'm not sure if that's getting to your
15 question further.

16 MR. FETZER: I was focusing on hand
17 scraping, but that's good to know. Thanks. Following
18 up on Fred's question of the cloning issue, it seems
19 like this is kind of a new thing in the industry. Is
20 it because suddenly cell phones have really good
21 cameras that can take good pictures, and is there a
22 reason why the Chinese can do it better let's say than
23 U.S. producers cloning each other's products?

24 MR. LEVIN: I'm going to let the industry
25 guys talk to it, but I just want to make one statement

1 at the beginning. I don't know how new it is, but
2 certainly when the Commission held the hearing in the
3 332 investigation, Mannington spoke to that issue,
4 Anderson spoke to that issue, Armstrong spoke to that
5 issue, and the other member of that panel who was not
6 part of our group, Master Craft, Master Craft, spoke
7 to that issue also, and so at least dating back at,
8 when was that, 2007, October 2007, that had been going
9 on in a pretty well-established manner at that point.
10 I just wanted to say that.

11 MR. HOLM: You know, here, domestically,
12 we're capable to copy our competitors as well, but we
13 aren't capable of copying and then bringing it in at a
14 reduced price, a dramatically reduced price.

15 MR. NATKIN: I think the other factor that
16 you face is as the market began slowing in 2006 and
17 2007 when there was a success, like Don's Casita
18 Blanca product, people jumped on it and said, hey,
19 there's something that's selling, I'm going to sell it
20 for cheaper. So that was definitely a major factor.
21 Anytime that there's a lot of attention given to a
22 particular product, particularly at a trade show, if
23 something's causing excitement, you know, whether it's
24 cell phone cameras or digital SLRs, they're coming in
25 and just hitting us hard.

1 MR. DOUGAN: Jim, this is Jim Dougan from
2 ECS. If I may add something. The issue of cloning
3 with respect to how we're presenting it, at least on
4 the economic side, goes to interchangeability of
5 product, so if the U.S. producers have activities
6 where they attempt to copy each other's products or
7 provide competitive products in the marketplace, that
8 would mean that the U.S. producers' products are, you
9 know, similar enough to be considered, you know, like
10 product, but not use the word like product in the
11 statutory sense, but by the cloning of the Chinese
12 producers means that what they're bringing in is
13 interchangeable, and therefore, the price comparisons
14 that would be done with the questionnaire data would
15 provide a reasonable indication of what the price
16 effects of the imports would be. You're not looking
17 at different products or qualitative differences.

18 MR. FETZER: Although it's possible, and I
19 can't remember exactly how you, I think Fred brought
20 this up to a certain extent, it's possible that
21 they're not exactly identical, that they may be using
22 a different species of wood or something, but is it
23 that they may appear identical to retail consumers?

24 MR. FINKELL: I would say that you have
25 both. You have both U.S. species going over there in

1 the form of face material and then coming back as a
2 finished product that are identical, at least looking
3 down on it, and then you have other species, say, in
4 Russia, and there's also a species called Chinese Elm
5 and there's a Chinese and Russian Maple that, it's not
6 exactly like our product, but it's close enough that
7 if you put colors and stains on it, that it's fairly
8 indistinguishable to the consumer. Also, to answer, I
9 want to add to the question that you asked just a
10 minute ago. A few years ago most of the Chinese
11 competition was in I would say the simpler products,
12 the things that represented the most base grade, but
13 in the last few years you've seen as they've gotten
14 better at making products cloning the higher value
15 products that typically go into the remodel market.
16 So, you know, if you look at the average price of what
17 was cloned before, it was definitely cheaper, and then
18 what has been cloned in the last, say, you know, 24
19 months or 36 months is a higher average price product.

20 MR. LEVIN: If I also may refer the staff to
21 Exhibit CX of the original petition, which is the
22 article from *Floor Covering Weekly* that spoke directly
23 to this issue.

24 MR. FETZER: So if somebody, if a domestic
25 producer, let's say, comes out with a very successful

1 product, will other producers tend to clone it or
2 maybe just make something that's similar to? Is there
3 a question of timing? Is there a question of the
4 Chinese being able to respond very quickly in this
5 cloning and maybe versus -- I mean, obviously if
6 you're copying things over time, you know, it may not
7 have as much of an impact. So I'm wondering -- I
8 guess that's two questions. Sorry for mixing them up
9 together.

10 MR. HOLM: I think we do both. Generally, a
11 domestic producer won't clone, truly clone, you know,
12 knock it off and sell it, because the only way you can
13 compete in that fashion is with price. So we rarely,
14 if never, do a true, what we would define as cloning.
15 If there's a successful new look, something
16 aesthetically that somebody's brought out, then yes,
17 we're going to try and as a competitor make sure that
18 we offer our customer base an alternative. Maybe a
19 twist to it, though, that improves upon it or our own
20 styling twist that would also jump on the category, if
21 you will, of the new look, but not identical and not
22 trying to compete on price.

23 MR. FETZER: Okay. Thanks. Mr. Levin?

24 MR. LEVIN: Yes. I'd just add one thing.
25 Jim, I know you're familiar with the Surfaces Trade

1 Show in Las Vegas and the anecdote about persons
2 walking around the exhibition halls with I-Phones and
3 snapping pictures of displays, and then that exact
4 product showing up on the market from China very
5 shortly thereafter. I think that really captures
6 what's going on here. Yes, my understanding is it's
7 not a lead time between when the I-Phone takes its
8 picture and when that Chinese product hits the U.S.
9 market.

10 MR. FETZER: Thanks. Mr. Finkell, did you
11 want to say something?

12 MR. FINKELL: I was going to tell a story
13 and I don't know if --

14 MR. FETZER: Go.

15 MR. FINKELL: We display product at an
16 annual trade show in Las Vegas, and this is a few
17 years ago, and we have an area that we restrict just
18 to our own customers, and we have concept products
19 that we display there and we have ballots where people
20 come through and we get their opinion as part of our
21 market research program. So I went to China about 30
22 days after we had had that show and I visited a plant
23 that I had not been to before and they took me into a
24 room and they laid out several of those products that
25 had been on our concept wall and said how do you like

1 them, would you like to buy them? I mean, they were
2 very, very close to what we had just showed 30 days
3 before that nobody had ever seen before. So it's very
4 quick.

5 MR. FETZER: I appreciate that. Mr.
6 Finkell, I think you said, I just want to make sure I
7 got this right, you were talking about the Chinese
8 being able to clone higher value products, and did you
9 say that that generally goes to the replacement
10 market, or did I mishear?

11 MR. FINKELL: Well, typically the builder
12 market is more price sensitive than the remodel
13 market, so the higher value products you're dealing
14 with, a consumer, typically a female, that's buying a
15 product for her personal house, and so the look there
16 tends to be more important than if you're selling to a
17 builder that's going to be building house, after
18 house, after house, and they're looking for something
19 that's going to, you know, have a good opening price
20 point, you know, and have a limited warranty, you
21 know? It's a more price sensitive sale.

22 MR. FETZER: Is there typically different
23 types of products that are used in, I mean, is it
24 maybe there's more basic patterns? I guess the
25 problem might be that in new housing, you never know

1 who's going to buy it, so you may go with something,
2 is it generally more generic versus something maybe
3 that's specifically tailored to somebody's taste?

4 MR. FINKELL: Generally, in the builder
5 market, yes, it's at least a multilayered engineered
6 wood flooring. The general base grade product for
7 builders would be a three inch wide, three-eighths
8 inch thick Oak surface layer. What we've seen in the
9 last few years, though, is that a hands grate builder
10 product, you know, is very prevalent and it's not the
11 base grade yet, but it's certainly there, whereas
12 three or four years ago you wouldn't have seen those
13 products in builder markets unless you're in a very
14 high value subdivision.

15 MR. FETZER: So are you saying that the
16 builder market's kind of maybe coming up in quality
17 more like the replacement market is?

18 MR. FINKELL: I think the trends in the
19 builder market tend to lag the remodel market and they
20 want to make sure that it's something that a broad
21 range of people are going to like just for what you
22 said. You know, you used to have all almond bathroom
23 fixtures because nobody wanted to venture out and
24 choose another color if you were a builder. You know,
25 if they don't love it, it's not a problem, but if they

1 hate it, it's a problem.

2 MR. FETZER: Thanks. It's interesting. In
3 terms of demand I think, I took a quick look at the
4 questionnaires, what we have at the moment, and most
5 of the producers have said demand is down. The
6 importers, it was a bit of a mix. Some said demand
7 was down, and some said demand was up, particularly
8 because of I guess substitution towards this product,
9 away from other products, such as laminate, and also
10 the environmental friendliness of it. I think we've
11 heard some of that in the Respondents' opening
12 statement this morning. I'm just wondering, I mean,
13 what, in terms of the substitutes out there, solid
14 wood flooring, laminate, I assume, are the big two.
15 Has this market been growing at least in terms of the
16 share during the POI? Have markets for the other
17 products gone down even more than for multilayer wood
18 flooring?

19 MR. HOLM: We'd prefer to respond to that in
20 our brief on Tuesday.

21 MR. FETZER: Okay. Okay. Are there any
22 general differences, I mean, are there particular
23 variances to multilayer wood flooring versus solid
24 wood flooring? I mean, I guess my mind thinks of EG
25 solid as the real thing, so that's the way to go, and

1 I understand from the petition that, you know, there's
2 I guess more stability in this product and that you
3 can use it on concrete because you can glue it instead
4 of having to nail it, but, I mean, in your opinion, is
5 it actually a better product than the solid, or is it
6 just positioned, does it depend, really, on the
7 application?

8 MR. NATKIN: I'll speak to that, and I'm
9 sure Don will want to speak to that as well. Yes, we
10 think it's a superior product to solids, not just
11 because you can go direct on concrete, you can go
12 below grade, which have been two major areas,
13 particularly on the remodel side, as people were
14 remodeling basements, as an example, and wanted a wood
15 floor in their basement. You can't do it with a
16 solid. It's much more dimensionally stable
17 ultimately, and as the visual trend has gone wider
18 with the consumer, engineered will perform a lot
19 better than a solid wood floor will. Wood, which is
20 called hygroscopic, it expands and contracts with
21 moisture, and so the wider you go, the more it's going
22 to expand and contract and be subject to gapping and
23 cupping, and engineered doesn't have that problem. So
24 we would argue that, yes, it's a superior product.

25 MR. FETZER: Mr. Finkell?

1 MR. FINKELL: You're not going to get any of
2 us to say it's not a superior product. We actually
3 make both types of products. You have geographic
4 differences, and it has to do primarily with is it
5 slab construction or is it pier and beam construction?
6 So you tend to have markets, like Florida, Texas,
7 California, that are flat where it's mostly being
8 built on a slab, which is a little less expensive, to
9 build a house on a slab, those are engineered markets.
10 Your hillier places, you know, this area going north
11 in the midwest where you have more undulating land,
12 you have pier and beam construction, and there you
13 tend to have more solids even though, you know, there
14 is some multilayered I guess encroachment into those
15 areas.

16 The first part of your question is, you
17 know, is it growing? I think over the past 25 years
18 multilayered has grown at the expense of solids, and
19 now it's kind of, it's about 50/50 and I guess it's
20 been that way for a while. So some of that, though,
21 is because you've had growth in those areas of the
22 country that are predominantly slab construction and
23 the rust belt has kind of stagnated. The other
24 difference is the thickness of the product. You know,
25 solids are three-quarters of an inch thick and you

1 have to allow for that in the construction of the
2 house when you build the subfloor.

3 The pier and beam situation, you have to
4 allow at least a quarter inch drop, some places, you
5 know, a half inch drop, so that the surface of the
6 floor when finished is going to match up to the rest
7 of the floor coverings in the house. You don't have
8 that issue with engineered. Engineered is either
9 three-eighths of an inch or half inch, and it will
10 fall into the same profile as carpet, or sheet vinyl,
11 or tile so that in a remodel situation, engineered is
12 actually easier to deal with because you don't have
13 this trip hazard when you put in a solid floor in an
14 existing house without dropping the subfloor.

15 MR. LEVIN: I'm just going to add one other
16 thing, and I really should go back and look at the
17 source on this, but there's information out there,
18 particularly in the Foreign Agricultural Service
19 reports that we referenced and included in the
20 petition, where even on the Chinese side there is now
21 much more heavily, there is a much more heavily
22 favoring of the multilayered industry than the solid
23 industry in terms of: A) the growth in manufacturing
24 in that country; and B) the benefits that are provided
25 to encourage exports. That is likely to do in large

1 part because of the growth relative to solid in this
2 market as well as probably the growth in the China
3 home market as well.

4 MR. FETZER: Thanks. Mr. Finkell, you
5 brought up the issue of regional differences for
6 demand between multilayered wood flooring and other
7 products. Are there regional differences in terms of
8 the type of multilayered wood flooring that would be
9 in demand in different parts of the country?

10 MR. FINKELL: I would say in general -- and
11 we used to fight that. You know, you made the
12 expression real wood. That was something that we
13 fought for our whole career because the consumer
14 perception is that, you know, solids are real wood and
15 engineered is something like plywood or something
16 worse. So what you have is in the more traditional
17 areas, I would say you tend to have an engineered
18 floor that has a fawn face on the surface as opposed
19 to a veneer face, a rotary peel veneer face, in the
20 areas that are more traditionally solid flooring, like
21 the northeast and the midwest, and certainly in
22 Canada.

23 MR. FETZER: Are there any differences in
24 terms of environmental conditions in different parts
25 of the country where demand might be different?

1 MR. FINKELL: Well, I think engineered, you
2 know, each one has its own advantages. Engineered
3 does not expand and contract so you don't get gaps
4 between the boards, but it does have a tendency to do
5 a little face checking sometimes because of the method
6 in which it's cut, so if you put it over radiant heat,
7 that's a potential problem for engineered floors.
8 Solid wood floors you really can't put over radiant
9 heat very well because you can't float it. Floating
10 means you don't attach it to the subfloor. So there
11 are climatic issues involved, you know, with both. If
12 you're going to be a national distributor of solid
13 wood floors, you tend to have a problem because some
14 areas, like Denver, which are very dry, you really
15 need to dry that lumber more than say in an area like
16 Florida or Texas where it's very humid. So there are
17 climatic considerations. I'm not sure if that was
18 your question.

19 MR. FETZER: Actually, I was, I mean, I
20 appreciate your answer. That's very helpful. I was
21 more focused on are there differences in demand for
22 different types of multilayered wood flooring, like
23 different species of wood? So not necessarily the
24 difference between that and hardwood, or solid -- I
25 keep on calling it hardwood -- solid wood flooring,

1 but does demand vary by region due to environmental
2 conditions?

3 MR. FINKELL: Well, there are certainly
4 cultural things that people bring to, you know, to the
5 marketplace. I mean, so you see that a species, like
6 Maple and Birch, Walnut, Cherry, tend to be stronger
7 species the further north you go. As you go in
8 Florida, you know, they like exotics down there. They
9 like, you know, floors that are white. In Texas they
10 tend to really like Hickory because it's a more
11 rustic, you know, I guess maybe a western. So there
12 are cultural influences that cause different species
13 or colors to be preferred in one area or another. We
14 used to see our trends come from California and then
15 move to the rest of the country, florida also was a
16 trend developer, but that's not so much anymore. I
17 mean, it's more people, it's a more homogenized kind
18 of approach.

19 MR. FETZER: Do the U.S. producers tend to
20 focus on any particular regions? I mean, I think
21 everybody sells nationally, but is there any focus to
22 some extent? Maybe do some companies focus in some
23 areas rather than others? Do you pretty much compete
24 in all areas pretty equally?

25 MR. FINKELL: I think, you know, the people

1 at this table compete nationally, but smaller
2 manufacturers maybe are more regional. You know, like
3 the people that I talked about that had a fawn face.
4 Like Owen Flooring and Award tend to be maybe in more
5 traditional solid markets.

6 MR. FETZER: Thanks. In one of the exhibits
7 in your presentation you looked at, I think you used
8 the producer price index, Mr. Dougan, of lumber.

9 MR. DOUGAN: That's correct. Hardwood
10 lumber. Yeah.

11 MR. FETZER: In terms of looking at raw
12 material costs, is that what we should be focusing on
13 in terms of looking at trends, or are there other
14 series out there? Maybe particular lumber prices that
15 might be helpful.

16 MR. DOUGAN: I'm not sure about individual
17 species of lumber and I think that has to do with the
18 overall mix of how the engineered floor is produced,
19 but the hardwood floor index was the guideline that I
20 used because it is the chief raw material input and it
21 was the series that was used in the 332 study, and I
22 believe it's, you guys can speak to the proportion of
23 your raw material costs that hardwood lumber is, but
24 it's, I say, by far the most significant.

25 MR. NATKIN: It is the principal product

1 input in multilayer wood flooring, so I think it's a
2 reasonable statistic to use. I mean, when you look at
3 whether it's a piece of engineered or a piece of
4 solid, you look at it, it's all wood. All the rest of
5 the inputs are incidental, whether it's the glue or
6 the finish. Those are very, very minor percentages
7 compared to the total percentage of inputs into the
8 product.

9 MR. FETZER: Okay.

10 MR. FINKELL: I would say that, you know,
11 the basic ingredient for our product is a log, a
12 veneer log. A hardwood, there's not any kind of index
13 that talks about what the price of a log is because we
14 all hold it very secret. Nobody's going to report it
15 to anybody. The lumber index, which is not what we
16 make our flooring out of, it goes up and down maybe
17 more quickly than logs. They tend to be more stable
18 because there's not a market report you can go to and
19 see what they're worth. The only thing I would say is
20 that we have not really seen a decline in the price of
21 logs because you have a lot of veneer logs being
22 exported to China, and they pay a very good price for
23 those. In some cases, two and three times what we pay
24 for similar logs. So I would say that it's the best
25 indication that's out there.

1 MR. FETZER: Do your customers typically --
2 do you know if your customers typically rely on
3 multiple suppliers or insist on having multiple
4 suppliers, or do they tend to focus on maybe getting
5 one supplier in the marketplace? Sometimes we find
6 that, you know, customers like to have multiple
7 suppliers just in case there is a supply
8 interpretation, to diversify their supply. So I was
9 wondering if that's prevalent in this industry.

10 MR. NATKIN: I would say that it's
11 prevalent. Most of our customers have multiple
12 suppliers, although they may prefer one or two or
13 three, but they have multiple. If you walk into the
14 average retail store, maybe six or seven years ago you
15 may have seen just hardwood brands, three or four,
16 including ours. Now you walk in, and you're
17 inundated, particularly with imported hardwood, where
18 you'll find 30 brands or 20 brands.

19 MR. FETZER: Mr. Finkell.

20 MR. FINKELL: I agree with that. I mean, 20
21 years ago, it was more likely that you had a customer
22 that only carried your brand, or only carried your,
23 like, engineered wood floor, like Anderson made
24 exclusively engineered flooring. And then somebody
25 like Robbins would make exclusively a solid wood

1 floor. And then we would see that as being
2 complementary, and they would, you know, carry both of
3 those products. As companies got bigger, and some of
4 the smaller players went out, and companies get into
5 all kinds of flooring, you would think it would be the
6 opposite, that you would have one brand with a
7 distributor because they didn't need the others. But
8 we were actually seeing the opposite. They have also
9 gotten bigger, so you can't basically tell them what
10 to do, like maybe in the past you had more influence.

11 MR. FETZER: Okay. Is service important in
12 this industry in terms of when you sell products, do
13 customers -- I mean, is there a lot of follow-up? Is
14 that something you compete on, too?

15 MR. FINKELL: Well, I think certainly in the
16 builder business, service is a critical issue because
17 if you cause a house closing to not happen, you know,
18 you're the one that delayed it. You're not going to
19 get too many chances to do that. So in the builder
20 business, service is critical. In the remodel
21 business, people know, you know, weeks and months
22 ahead of time what they're going to do, and so it's
23 not as critical, I would say, in the remodel business
24 because people typically are planning further ahead,
25 and they're dealing with an individual client.

1 MR. HOLM: I agree with Don. Service with a
2 builder, because they generally have a very short lead
3 time to install the flooring once all the other
4 suppliers have been in the home -- we're generally
5 last to get in the home. So there is a short time
6 period. But with the consumer and the replacement
7 market, which is a bigger side of the market today,
8 price is the market. And by the way, when we talk
9 about service, we really mean the availability of
10 products in the store. Once the floor is installed,
11 there is very little after-service required by our
12 sort of retailer. It's all about the flooring today.
13 It's all about the price. They'll wait for the right
14 price.

15 MR. FETZER: What is the typical service
16 that you give?

17 MR. HOLM: Service through the retailer?
18 Whoever -- yeah, whoever -- I mean, yeah.

19 MR. FETZER: The distributor, I guess,
20 specifically.

21 MR. HOLM: Yeah. We sell through an
22 independent distributor, wholesaler. In our case, we
23 carry fairly heavy inventories of our products, and we
24 try to support that if they place an order today, 90
25 percent of it will be available to them to pick up in

1 the morning. So we carry fairly heavy inventories,
2 and support them in a very strong way.

3 MR. FINKELL: Anderson -- we have an
4 Anderson brand and a Shaw brand. Anderson sells for
5 distribution, and the distributor carries the
6 inventory so that they -- I'm not -- I don't know what
7 their service level is. Shaw sells directly to
8 retailers, and their service level is above 98 percent
9 on -- you know, when you order it, it's there.

10 MR. FETZER: Okay, thanks. I think I know
11 the answer to this question, but I just sort of want
12 to run this by you and get it on the record. One
13 thing we look at is cost shares, and we tend to -- at
14 least that we word it in our questionnaire, we tend
15 not to get good answers, probably because our question
16 isn't that good. But let me try this, and it's
17 probably not -- you're not purchasers, so you may not
18 know this as well as your purchasers might. But just
19 to get some sense of the cost share -- I think I
20 understand it. We look at the cost share of
21 multilayered wood flooring in terms of, let's say, a
22 remodeling job to remodel a floor.

23 I imagine it's going to be a very high
24 percentage. I mean, you know, there is going to be
25 some labor and moldings or other things, meaning, I

1 don't know, maybe greater than 90 percent or
2 something. And then if you look at it, let's say, in
3 terms of the percent of a new house, I would expect it
4 to be on the small side.

5 So could you give me some sense of maybe
6 just rough percentages of that? Is that
7 characterization right? I mean, in terms of the share
8 of the cost of a house, is it less than 1 percent? Is
9 it really small, or is it maybe more significant?
10 That's what my instincts tell me, but I just want to
11 get a sense of that.

12 MR. HOLM: Yeah. That's very tough. The
13 average installation is maybe 300 square feet in a
14 remodel. And so an average installation between the
15 flooring and the installer's cost and the like, it's
16 going to be maybe \$10 or \$12, so \$3,600 for the
17 consumer. It would be a little less expensive in a
18 new home. But let's \$3,000 in a new home in a
19 \$300,000, that's 1 percent. But in a \$200,000, that's
20 1-1/2.

21 MR. FETZER: Thanks.

22 MR. HOLM: I mean, I think that's as a good
23 a number as you're going to get.

24 MR. FETZER: Okay. I appreciate that.
25 We're just trying to get ballpark figures, just to get

1 a sense of that.

2 MR. LEVIN: But overall --

3 MR. FETZER: Your microphone, Mr. Levin.

4 MR. LEVIN: But, Don and Kim, the overall
5 sense that Jim was describing is correct, that for the
6 remodeling, it's going to be a very, very percentage,
7 and for a new home, it's going to be a relatively low
8 percentage, 1 and 2 percent or so.

9 MR. FETZER: So a small percentage of the
10 value of a house, but it maybe a large percentage of
11 the remodeling job itself, assuming we're just talking
12 about a floor and not redoing all kinds of other
13 things.

14 MR. LEVIN: Right.

15 MR. FETZER: Okay. I appreciate that. I
16 think that's all I can think of at the moment. I will
17 -- I really appreciate your answers. If I think of
18 something else, I think I have one more --

19 MS. DeFILIPPO: No, no.

20 MR. FETZER: But I appreciate your coming
21 out and answering our questions. It's a new industry
22 for us, so it's really important for us to just learn
23 the basics, and this is very helpful. Thanks.

24 MS. DeFILIPPO: Thank you, Mr. Fetzer. I'll
25 now turn to see if Ms. Klir has any questions.

1 MS. KLIR: Yes, I have a few questions.
2 This is Mary Klir with the Office of Investigations,
3 and I'd also just like to thank this panel, to start
4 off. I only have a few. My first question -- I'll
5 throw it out there, but you may prefer to answer at
6 post-conference. Overall, the financial data shows
7 some improvement in the domestic industry's financial
8 performance in the first nine months of 2010 as
9 compared to the first nine months of 2009. What are
10 the primary reasons behind that improvement?

11 MR. FINKELL: Well, we -- do you want me to
12 stop?

13 MR. LEVIN: No, no.

14 MS. KLIR: Yes. Anyone can answer. I kind
15 of targeted counsel.

16 MR. LEVIN: I don't coach witnesses. I just
17 encourage them one way or another. I just want to
18 make sure it doesn't go into confidential data.

19 MR. FINKELL: Okay. Well, I think in
20 general people in the flooring business, not just wood
21 floors, saw a pick-up in business in the first half of
22 the year because there was a stimulus for new houses
23 of \$8,000 per house, and so it encouraged a lot of
24 construction and activity that maybe would not have
25 been there before. But, I mean, we haven't seen that

1 persist in the second half of the year.

2 MS. KLIR: Okay. So it sort of lends to
3 your exhibits, Mr. Dougan?

4 MR. DOUGAN: That's right. I mean, I think
5 we have attributed it to the tax credit, and I believe
6 when I was discussing it with the industry folks
7 yesterday, they said something along the lines of when
8 the tax credit expired, it was like someone turned off
9 a faucet, and the business went away very quickly
10 after that. So the improvement that you're seeing in
11 the first nine months, I think we would argue is
12 largely attributable to the first six months, and
13 that, you know, the data aren't available on a quarter
14 basis in the questionnaire, but I think most of the
15 improvement that you're seeing in the full three-
16 quarter part-year period really happened in the first
17 six months. Would you guys agree with that?

18 MR. HOLM: Yes. In fact, for us, the first
19 five months of the year, driven by the government.
20 The opportunity was great -- not great, but it was our
21 first two quarters out of the last 14 that we had
22 shown growth, overall growth, in the business. The
23 third -- the summer was flat, and the third quarter is
24 returning to distressed levels again.

25 MR. LEVIN: Yes. Just by a little bit of

1 background, When I first started working with these
2 guys, I asked them, okay, can you tell me a couple of
3 the web sites and blogs and whatnot that I should be
4 keeping track of. One is floordaily.net, a really
5 interesting web site. Everybody write it down. It's
6 www.floordaily.net. And they do a cool thing. There
7 is this guy, Ken Pa, who does audio interviews with
8 different people in the industry, and they're on mp3
9 files, so you can just go and listen to an audio
10 interview. They are usually 10 or 12 minutes. And a
11 few days ago, he interviewed a person by the name of
12 John --

13 MR. HOLM: John Baugh, B-A-U-G-H.

14 MR. LEVIN: Who is a stock analyst for
15 people in the industry. And he was talking
16 specifically about Mohawk and Armstrong, which may be
17 helpful since they are non-petitioning companies. Of
18 course, they just released their SEC reports for the
19 third quarter. And he made the point very much like
20 Jim and Don were just making. They were doing much
21 better while the home buyer tax credit was in place.
22 And then as soon as that ended, their third quarter
23 really just hit a wall and went down, for both of
24 those companies.

25 And, yeah, so -- yeah. I mean, I know the

1 numbers that at least we have, and, yeah, there is
2 some improvement in the first half of 2010. And I was
3 looking at this. I didn't even catch on at first
4 about the home buyer tax credit. I went back to my
5 guys and said, you know, what is going on. Well, it's
6 the tax credit just. Once the tax credit was removed,
7 yeah, we're back to what was the new norm that was
8 established over the past year or two.

9 MR. FINKELL: If you'll permit me another
10 story, in August, because we had had some improvement
11 in the wood group at Shaw after some long period of,
12 you know, difficult business, you know, my boss, the
13 chairman of Shaw, sent out an e-mail to all of the
14 managers of the hardwood group congratulating them.
15 And then, of course, when the numbers came out for
16 August, he told me he's never going to give us a
17 compliment again.

18 MS. KLIR: Okay. Thank you very much for
19 that answer, those answers. My next two I'll request
20 for the post-conference, from Mr. Dougan and
21 Mr. Levin. Several petitioners have reported
22 relatively weaker financial performance as compared to
23 other reporting firms. And I'm primarily looking at
24 the operating modules when I ask this question.
25 Please discuss the key factors behind the variation in

1 U.S. producers' financial performance during the
2 period of investigation.

3 MR. DOUGAN: Will do.

4 MS. KLIR: Okay. And lastly, for each
5 petitioner, please describe the purchases, upgrades,
6 et cetera that are reflected in the capital
7 expenditure data that was report to the Commission in
8 table 3-13 of the U.S. producers' questionnaire.

9 MR. LEVIN: Absolutely.

10 MS. KLIR: Okay. Thank you very much.
11 That's all I have.

12 MS. DeFILIPPO: Thank you, Ms. Klir. Mr.
13 Goetzl, do you have any questions for this panel?

14 MR. GOETZL: I have a few. Thank you very
15 much. First, let me also express my gratitude for all
16 of you to be here. I appreciate all your testimony
17 this morning thus far. I'm going to start by
18 following up a little bit on Fred Ruggles' questions
19 regarding imports and some of the data issues. I
20 guess to begin with, as I understand it, the scope
21 that we're talking about here does not include bamboo,
22 laminates, and certainly not solid wood. Is that
23 right?

24 MR. LEVIN: That's correct.

25 MR. GOETZL: Yes. In the trade data, is

1 there a way to distinguish bamboo imports from other
2 types of multilayer wood flooring imports?

3 MR. LEVIN: Let me if I may go back to the
4 HTS. I'm pretty sure that there were new bamboo-
5 specific classifications that were implemented in
6 either 2008 or 2009 that would isolate just that
7 product. I need to go back and check 4412. But I'm
8 pretty sure that's the case. And I think it slots in
9 right before the birch-based subheading. But I'll be
10 happy to double check that.

11 MR. GOETZL: Okay. Now, as I understand it,
12 some multilayer wood flooring is actually manufactured
13 using materials other than veneer, for example, medium
14 density fiberboard or high density fiberboard. And I
15 assume that is still covered within the scope of the
16 imports we're talking about here.

17 MR. LEVIN: Are we talking for the core?

18 MR. GOETZL: For the core, yes.

19 MR. LEVIN: Yes.

20 MR. GOETZL: There is a HTS provision that I
21 characterize as -- or is used for certain types of
22 flooring made from -- I believe it's block board,
23 Laminboard, and batt board is the description of the
24 code. But I don't think that's one of the codes that
25 you've listed in the petition as being covered. Is

1 any multilayer wood flooring that is covered by the
2 petition included in that HTS provision? Or is there
3 a particular reason that you've excluded it? I can
4 give you that number if you need it.

5 MR. LEVIN: No, no, no. I think I know what
6 it is.

7 MR. GOETZL: 44129431.

8 MR. LEVIN: Yeah. As far as I can tell --
9 and I'll go back and double check the HTS. But as far
10 as I can tell, and as far as I know, there is no
11 multilayered wood flooring that would be under those
12 provisions. But let me verify that, if I may.

13 MR. GOETZL: Since you're using the Catalina
14 data, Catalina's data, for much of the information
15 that you've presented this morning and in the
16 petition, do you know how Catalina derives its
17 numbers? Do they do it by using some assumptions for
18 the trade in the publicly available, commercial,
19 common Census trade data? Or are they surveying
20 companies directly?

21 MR. LEVIN: I do not know. I know what is
22 the source on the table, which indicates U.S.
23 Department of Commerce. And I'm not sure if there is
24 another indication. I'd have to look at it. What we
25 would like to do is to go back to Catalina and see if

1 we can find out from them how some of the numbers are
2 derived. But we are not sure how they are derived.
3 What we do know is that to the best of my knowledge,
4 and to the best of anybody on this panel's knowledge,
5 there is no other source of data that isolates what is
6 called engineered wood flooring.

7 There are other market consultants, the *U.S.*
8 *Floor Report*, for example. They don't do that, for
9 the various reasons the HTS doesn't do that. You can
10 do it by industry code, you know, the Department of
11 Commerce industry code. This is the only place that
12 we have seen -- and I think that's correct -- data
13 that is isolated just for engineered wood flooring.
14 And like I was indicating, I'm not going to swear that
15 those numbers are 100 percent. But based on reality
16 checks, they seem accurate, both on the volume, on the
17 trends, and on the average unit value.

18 They, unlike some of the HTS numbers, smell
19 right.

20 MR. GOETZL: Okay. Thank you. For birch-
21 based multilayer wood flooring, you make the
22 assumption that about 25 percent of what is coming in
23 is under the birch hardwood plywood category. The
24 basket of goods might be that product. And I
25 understand that probably an assumption that is sort of

1 based on what you know about the industry and about
2 imports and so forth and so on. About what percent of
3 the U.S. production -- you can offer an estimate --
4 might be birch-based multi-layer wood flooring?

5 MR. NATKIN: I can take a stab at this, yes.
6 There is one thing that complicates that. Birch in
7 individual terms is very similar to maple. So while
8 maple is not really prevalent in Asia, birch is much
9 more prevalent. So a lot of times it is used as a
10 substitute product for maple. Maple represents about
11 10 percent of flooring sold in the U.S., birch
12 probably 2 or 3 percent. So additively, they are
13 somewhere in the 14 to 15 percent range of the total
14 market.

15 MR. FINKELL: I would say in our own
16 production, birch is probably 3 percent.

17 MR. GOETZL: Okay. Thank you. Anybody
18 else?

19 MR. NATKIN: I would say that of the Chinese
20 imports, it represents a higher percentage that is
21 reflected in the market, partially because it comes in
22 duty-free, and partially because it is a readily
23 available species over there.

24 MR. GOETZL: Okay. Do you have any
25 estimates as to kind of what is the prevailing species

1 -- we'll ask the same question to the Respondents.
2 What are the most common or the majority of space in
3 your species used by the -- or found in the Chinese
4 imports? Would it be birch, oak, hickory?

5 MR. NATKIN: Birch -- I would say would be
6 probably the big three, exclusive of bamboo, but oak,
7 birch, and hickory.

8 MR. GOETZL: Which is reflective of the U.S.
9 market?

10 MR. NATKIN: The U.S. market is very heavily
11 still weighed towards oak and hickory. It's more than
12 60 percent of the market.

13 MR. FINKELL: I'm not aware of -- I mean, I
14 don't run into birch very often at all from China. I
15 mean, most of it, I see oak and hickory.

16 MR. GOETZL: So you see oak and hickory
17 primarily?

18 MR. FINKELL: Yes.

19 MR. GOETZL: So would you say that oak and
20 hickory are the predominant species reflected in the
21 imports from China generally?

22 MR. FINKELL: That's what I see, yes.

23 MR. NATKIN: We would agree with that.

24 MR. GOETZL: And what percent, if you can
25 estimate, kind of in a general kind of way, would -- I

1 guess bamboo is becoming increasingly popular, from
2 what I understand. You certainly see it a lot more in
3 the big box stores. Has that captured a significant
4 share of the flooring market in general, and the
5 multilayered wood flooring specifically, even though
6 you're not including that necessarily in your scope?

7 MR. NATKIN: I would say yes, it has
8 captured some share. I think it gets more attention
9 than is actually sold because there is an easily told
10 story around bamboo. But it's probably not more than
11 4 or 5 percent of the total market, would be my
12 estimate.

13 MR. GOETZL: Anybody else?

14 MR. FINKELL: I would support that. I mean,
15 it's a nice story. It's rapidly renewable, and people
16 repeat it often. But as far as actually how much is
17 being sold in the market, I don't believe it's that
18 much.

19 MR. GOETZL: Thank you. I'd like to turn
20 for a few moments to the manufacturing process, if I
21 could, and getting some clarification and further
22 information about how multilayered wood flooring is
23 manufactured here, as compared to maybe in China, to
24 the extent that you're familiar with their
25 manufacturing processes.

1 Now, as I understand it, there are some
2 companies that peel logs directly, produce the
3 veneers, glue them up, put face veneer on it, shape
4 it, and sell it. Other companies purchase the veneers
5 from outside sources, and other companies might
6 purchase the core plywood and adhere the veneer. Is
7 that a fair kind of characterization of the way
8 different companies operate here in the U.S.?

9 MR. NATKIN: Yes, I would say that's a fair
10 characterization of both sides, actually.

11 MR. GOETZL: Okay. And in the 332 report a
12 few years ago, I think we may have asked that question
13 on questionnaires, and I think the results came back
14 at about three-quarters or 78 percent of U.S.
15 production was manufactured by companies that had
16 manufactured veneers, if I remember correctly, and 14
17 percent I think purchased -- I forget what it is now,
18 whether they purchased the -- I think they purchased
19 the platform.

20 To the best of your knowledge, the
21 percentages roughly that were reported in that 332
22 report, do they still hold? Are most companies
23 actually peeling logs and manufacturing the veneers?

24 MR. FINKELL: Well, I know that the
25 companies at this table peel their own veneer. The

1 companies that -- and at Shaw, we purchase a core
2 board and we put veneer on it. We purchase that
3 veneer outside, and we purchase the core board
4 outside. And then I would say the companies that do
5 the sawn face product that we talked about before,
6 like a board, typically will purchase a plywood core
7 and then create a face, a sawn face, and then glue it
8 to the core in a different process.

9 MR. GOETZL: Might the plywood cores that
10 are being purchased be an imported product as well?

11 MR. FINKELL: Yes, it could be. I mean,
12 birch or -- usually birch, Russian birch.

13 MR. GOETZL: While I'm thinking about it,
14 I'm going to sort of get back to an issue related to
15 the measuring of the imports because it's sort of
16 related to the manufacturing question as well, or at
17 least how you report your production. In the
18 petition, you talk about a conversion factor between
19 the cubic meters and square feet. Now, some of the
20 import statistics that you know are reporting cubic
21 meters, other statistics report square meters, and of
22 course here in the U.S. we're using square feet for
23 production purposes. The conversion between cubic
24 meters and surface area, square feet, is largely a
25 function of how thin or thick the material is. In

1 your estimation, what would be the appropriate basis
2 for which to convert the imported product?

3 Now, you talked a little bit about that in
4 your petition, and I also think in your responses to
5 the Department of Commerce with some follow-up
6 questions. As I recall, there are several ways of, I
7 guess -- or several assumptions you can use as far as
8 what the thickness is -- the thicknesses of the
9 material could be in order to derive a reasonably good
10 conversion factor to square feet from cubic meters.

11 There is, I guess, under one metric -- it
12 was 1,146 square feet per cubic meter. On another
13 one, it's 1,130, and yet a third one, it was 590
14 square feet. Can you just sort of elaborate on the
15 differences of those assumptions and what you might
16 suggest the Commission staff use for converting the
17 cubic meters in the import data to like square foot
18 equivalent? And also, what is the prevalent practice
19 for reporting the U.S. production, on what square foot
20 basis? Is it three-eighths inch or something
21 different?

22 MR. LEVIN: Absolutely. I'll refer to our
23 November 2nd supplemental submission to the Commerce
24 Department questions, pages 5 through -- 5 and 6. And
25 I believe that was all public. At the Commerce

1 Department's request, we -- they had asked us to walk
2 through the calculations embodied in the conversions
3 set forth in the petition, and we did a step-by-step
4 walk-through. Absolutely, you have to build in an
5 assumption on thickness in order to be able to convert
6 cubic meters to square feet. And the assumption that
7 was built in here was we'll take three-eighths thick
8 and one-half inch thick, and then we'll do a simple
9 average of those two, those being -- the three-eighths
10 and the half inch being predominantly, if not almost
11 exclusively, the two thicknesses of multilayered wood
12 flooring that you would see on the market.

13 Again, it's necessary to build in some
14 assumption in order to do that conversion. There is
15 no other way that I know of, unless there is some sort
16 of, you know, applied quantitative, algebraic thing
17 that can be done. But that's what we thought was a
18 perfectly reasonable operating presumption. And in
19 the calculation, we walked through step by step how
20 the math performed.

21 Am I getting the question?

22 MR. GOETZL: I think so. If I remember
23 correctly, what I read in that response is that you're
24 suggesting, if I remember correctly again, 1,130
25 square feet per cubic meter is probably the

1 appropriate general conversion factor to use for the
2 import data. Is that right?

3 MR. LEVIN: Let me see what we came up with.
4 It was 990 square feet per cubic meter.

5 MR. GOETZL: So that's the average you were
6 suggesting we should use?

7 MR. LEVIN: That's the average we're
8 suggesting you should use, correct.

9 MR. GOETZL: Going back to the manufacturing
10 process again, if you don't mind, when the veneers are
11 glued up together -- oh, first off, as I understand
12 it, here in the U.S., typically the number of plies
13 are between five and nine. Is that right?

14 MR. NATKIN: No.

15 MS. DeFILIPPO: Okay. What is the typical
16 number of plies that are --

17 MR. NATKIN: Most commonly in the U.S. it
18 would be three to five plies, although we do produce
19 some seven-ply products. But the majority is three to
20 five plies, the bulk of it being five.

21 MR. GOETZL: And the seven-ply product might
22 be half inch or greater? Or might you also make the
23 thinner three-eighths inch with seven-ply?

24 MR. NATKIN: Not in the U.S. do we make the
25 thinner three-eighths with seven plies. We make it

1 five-ply or three-ply in the U.S.

2 MR. GOETZL: And is the Chinese
3 manufacturing similar? Do they use the same of plies?

4 MR. NATKIN: No. Typically, they're using
5 more layers of thinner ply, for a number of reasons,
6 one of which being the source of the core material
7 itself comes from smaller logs that require thinner
8 peeling because they go through a slightly different
9 -- they go through a cold -- Don can speak to this,
10 too, but a cold-peeling process versus what we call a
11 hot-peeling process.

12 So that's a piece of it. You tend to see
13 more seven- and nine-ply coming out Asia, although
14 that could be in flux as they look to take cost out,
15 too.

16 MR. FINKELL: We make primarily five-ply.
17 We make a little bit of three-ply. We don't make any
18 seven-ply. At least we haven't in probably 10 years.
19 What Dan is referring to, you know, in China and also
20 in places like South America, in tropical countries,
21 you tend to have thinner peeled veneer, and in the
22 U.S., thinner veneer is done on more northern species,
23 and it is actually more expensive, the thinner veneer.
24 And in the plywood construction, you know, it tends to
25 be more expensive because you've got more ply to

1 handle and lay up, and you've got a longer time in the
2 press because you have to penetrate all the way from
3 the face down to the inner plies of the material
4 through the glue. And you've got the glue cost.

5 So, you know, Armstrong typically makes a
6 three-ply product. We and Mannington make more of a
7 five-ply product. That is generally how the industry
8 stacks up.

9 MR. GOETZL: But in China, they're using
10 more plies and therefore more glue. So why would they
11 do that? Because the raw material is different? Are
12 they getting a higher utilization out of the raw
13 material by using thinner plies, even though they're
14 having to use more glue because there are more plies?

15 MR. FINKELL: I think it's because of the
16 species that they're peeling over there for core,
17 primarily eucalyptus. If you see eucalyptus up to
18 where it's hot enough that you can get a good peel,
19 you have to heat the wood to a plastic state usually,
20 is what we say, if you're going to cut a thicker
21 veneer. And if you heat eucalyptus up like that, it
22 will split up into quarters, and you will just get a
23 terrible yield. We have some experience in doing that
24 from products that we make.

25 So if you're going to cut it colder, or just

1 maybe lukewarm, if you cut it thinner, you're forcing
2 less through the opening between the knife and the
3 nose bar, and so it doesn't fracture the veneer as
4 badly. So if you're dealing with those kinds of
5 species, you tend to cut them thinner.

6 MR. GOETZL: What are the predominant
7 species used for the core material here in the U.S.,
8 and can you speak to what the predominant species are
9 in China?

10 MR. LEVIN: If I can, and that's certainly
11 an industry question. But just to make sure there is
12 no confusion on the terminology here, Don was just
13 using the term "core." Core, as we're using it in the
14 scope, is, you know, that central layer.

15 MR. GOETZL: Right.

16 MR. LEVIN: But it is also used sometimes --
17 and I know this threw me off -- as a term that refers
18 to the several layers between the face and the back
19 ply. So when we're talking -- when Don was just using
20 the term "core veneers," I don't think you were
21 necessarily referring to the central core. You were
22 talking about the several layers that are used.

23 MR. FINKELL: Yeah. I was talking about the
24 non-face construction.

25 MR. LEVIN: Right.

1 MR. FINKELL: Whether that's, you know, two-
2 ply below a face in a three-ply product, or whether
3 it's, you know, 11 plies or something underneath a
4 sawn face. What is core to me is whatever that
5 construction is, or it could be HDF, which is not made
6 that way. It's not made out of that same technology.

7 MR. NATKIN: To answer your question
8 regarding what is used in below-the-face ply in the
9 U.S., predominantly we're using hickory, poplar, gum,
10 and oak in the construction. Overseas, the
11 predominance now in the veneer construction would be
12 eucalyptus, and they also have a cottonwood-poplar
13 hybrid that they use.

14 MR. GOETZL: Mr. Finkell, just getting back
15 to your explanation, and Mr. Levin, are the veneers
16 that are used in the mill of the core then different
17 than the veneers that might be used outside the middle
18 of the core? And if so, why?

19 MR. FINKELL: Well, if you look at -- you
20 know, the HPVA has a standard for manufacturing of
21 engineered wood flooring. And there are different
22 grading standards. If you are looking at the layer of
23 veneer that is directly underneath the face,
24 especially if it's a thin face, it has to be sound so
25 that a high yield doesn't punch through. So that has

1 a grading standard which is basically to create sound.

2 The next layer in can have a little more --
3 a few more openings in it. And if you have a product
4 on the back that is a long way from the face, it can
5 be very low grade. So each layer does have a
6 different grading standard. So in some cases, you
7 know, people use different species for those different
8 layers.

9 MR. GOETZL: Is the Chinese product similar
10 in that regard? Are they adhering to those same
11 standards?

12 MR. FINKELL: I mean, the ones that I've
13 seen, they're made different ways. Sometimes they
14 purchase a plywood that has already been made, either
15 in their own plant, or purchased from somebody else.
16 And then you do a lot of filling on the face to try to
17 make it smooth, and then you glue another layer on to
18 it. In some cases, they'll use one species like
19 eucalyptus for the inner plies of the core, and then
20 they'll put a birch veneer onto the face and back of
21 that. And then they'll have a face veneer that will
22 go on top. So you end up with a face veneer that is
23 the apparent, you know, species, and you have a birch
24 on the back. That's generally how I've seen it done.

25 MR. GOETZL: Thank you. In the

1 manufacturing process, what size are the panels that
2 are made? Are they standard four-by-eight sized
3 panels that are then cut to the desired width of the
4 market? Or is it done differently than that? What is
5 pretty typical?

6 MR. NATKIN: I mean, I think there is a
7 little bit difference between here and Asia. I mean,
8 our panels are about 53 by 45, which is then ripped
9 down and cut to profile. Mostly what you'll see over
10 there for the manufacturers is they're buying first
11 core is that it's a standard four by four panel that
12 has been ripped down.

13 MR. FINKELL: At Anderson, we make a 44-inch
14 by 44-inch panel, and at Shaw, we make a 60 by 96 inch
15 panel.

16 MR. GOETZL: Is most of the multilayered
17 wood flooring sold in four-foot lengths, or is some of
18 it sold in longer lengths?

19 MR. FINKELL: Everybody has their own
20 length. Well, the longest would be similar to wood
21 product that is probably, you know, 7-1/2 feet, just
22 short enough to go sideways in a trailer. But that's
23 not -- that's a small part of the higher end. I'm
24 going to say most of it is in the 42-inch to 58-inch
25 range. Most of the stuff going to home centers, you

1 have to have it under 48 inches to fit into a bay, you
2 know, in a store with a racking system. So it tends
3 to be -- I'm not sure what it is, 47 inches or 46,
4 something like that. We don't sell home centers, so I
5 don't know. I just know from when we did sell home
6 home centers. It wasn't a problem for us because our
7 product was short enough to fit under.

8 MR. GOETZL: Thank you.

9 MR. NATKIN: And we would agree with that,
10 that the bulk of it is in that 42- to 58-inch maximum
11 length.

12 MR. GOETZL: Mr. Holm, in your testimony,
13 you referred to a separate finishing plant in North
14 Carolina, I think, for your products. Is that right?
15 Is that typical, that the finishing is done in a
16 separate facility? And is that facility co-located
17 typically, or is it at a different location than the
18 manufacturing plant itself?

19 MR. HOLM: I'll answer, and then let Don
20 respond as well. But, yeah, generally the veneer
21 operations are near the logs, and the finish
22 operations tend to be somewhere else. So I don't
23 think our scene is very uncommon. I don't know, Don,
24 if you've got any veneer operations with your coring
25 operations.

1 MR. FINKELL: No, we do not anymore. We
2 used to, but that was 40 years ago. We have veneer
3 operations that are remote, and then -- because the
4 products are much lighter and easier and less
5 expensive to transport when it's dry. And then we
6 ship to plants that press it and, you know, saw it,
7 mill it, and finish it, all in one place. And I'm not
8 sure. The other domestic suppliers, the only plant
9 that I know of that actually did the whole thing all
10 the way through was the Armstrong center Texas plant,
11 which I think they have the core with -- but I'm not
12 positive about it.

13 MR. NATKIN: That's correct. That was the
14 last of Armstrong's plants that did the full
15 integrated process, all the way from peeling all the
16 way through. The bulk of the plants do from the
17 pressing stage for when the products are pressed
18 together, and then forward from that.

19 MR. GOETZL: Thank you. Are the glues that
20 are used here in the U.S. any different than the glues
21 that are used in the Chinese product, to your
22 knowledge?

23 MR. NATKIN: That's actually something that
24 has changed in the last couple of years, particularly
25 driven by some laws in California, the California Air

1 Resource Board law that required a much lower level of
2 formaldehyde emissions. It has driven some change.
3 We at Mannington for 15 years have been using a
4 formaldehyde-free glue, so our glue really hasn't
5 changed. But it has driven the rest of the industry
6 to go to much more lower emitting glues.

7 If you'd asked the question three years ago,
8 the fundamental answer would be yes. There would be a
9 lot more urea formaldehyde or melamine enhanced urea
10 formaldehyde glues in Asia versus what was over here.

11 MR. GOETZL: Thank you. Mr. Finkell, do you
12 have anything to add to that?

13 MR. FINKELL: Yeah, I concur with that. I
14 mean, the reason that you use the higher formaldehyde
15 emitting glues is they're less expensive. So the ones
16 that don't emit are more expensive. So with CARB, you
17 know, in California, we don't have two inventories.
18 We have one common inventory for the country. So
19 everything has gone to the higher standard. So what
20 we have seen is glue costs go up over the last -- you
21 know, especially since CARB has been in effect, which
22 has been about three years.

23 MR. GOETZL: And those same regulatory
24 standards, I assume, are driving the Chinese producers
25 as well to comply, to conform, and to change --

1 MR. FINKELL: I mean, the law doesn't
2 distinguish between ours and theirs. So it
3 theoretically should be.

4 MR. GOETZL: Thank you. In the Respondent's
5 opening testimony, Mister -- I apologize if I get the
6 name wrong -- Ludwikowski talked about the Chinese
7 imports having contributed to an expansion in the
8 market, particularly in terms of the variability and
9 choice available to consumers. Might any of you care
10 to comment about that? Have Chinese imports
11 specifically contributed to the choice in the
12 marketplace?

13 MR. NATKIN: I would say the choice that
14 they have contributed to is a much lower price.
15 Beyond that, no, I don't think they've expanded
16 anything. If anything, what we see are cloned
17 products that come in at a significantly lower price.
18 The only thing that maybe the Chinese have contributed
19 as a product innovation in the last 10 years would be
20 bamboo. That's not a product that 10 years ago really
21 existed at all as a flooring choice. So kudos to the
22 Chinese side for that. But other than that, no,
23 absolutely not.

24 MR. GOETZL: Anybody else care to comment?

25 MR. FINKELL: I think if you look at the

1 share of wood flooring as a total amount of flooring
2 sold, you know, carpet, vinyl, ceramic tile, laminate,
3 solid wood flooring, and engineered wood flooring, I
4 think wood flooring in the last three years is
5 probably a smaller share than it was. So I don't
6 think -- I disagree with that, that it's increased the
7 size of the market for wood. I think it's actually
8 smaller.

9 MR. GOETZL: How about the role of the big
10 box stores, the Lowes, the Home Depots, the Lumber
11 Liquidators, et cetera? Has their growth affected the
12 market for multilayer wood flooring? Have they had
13 some effect on prices? Are they pushing prices down
14 because of their big volumes? Anybody care to comment
15 on that aspect?

16 MR. HOLM: We prefer to handle that through
17 the brief.

18 MR. GOETZL: Okay. I look forward to that
19 answer. In responses from Mr. Fetzer's questions, you
20 noted that there is opportunity to use multilayer wood
21 flooring on concrete, in basements, and so forth and
22 so on. And my understanding is that what is becoming
23 increasingly popular is the use of a floating floor,
24 glueless floor. Do you have any sense for what
25 percentage of the sales or market in the U.S. are

1 accounted for by the glueless -- I guess it's called
2 click-and-lock or something floor?

3 MR. NATKIN: It's anybody's guess. Our
4 current estimates would have it at about 10 percent of
5 totaled engineered hardwood flooring sales, although
6 it has grown rapidly. It went through kind of a rapid
7 expansion for awhile, and then it sort of died off.
8 In the last I'll say year and a half, it's come back
9 pretty strongly again.

10 MR. FINKELL: What we see is that it is very
11 prevalent in the big box stores, where do-it-yourself
12 is important, and not as much in the remodel, very
13 little, and almost none in builders.

14 MR. GOETZL: I'd like to ask a little bit
15 about the cloning issue that you brought up earlier
16 and pursued to some extent. I just have one question
17 on that. Are any of these designs patentable? And if
18 so, have you pursued patents on some of these things,
19 and have they been violated, to your knowledge?

20 MR. NATKIN: Typically, from what we
21 understand, designs are not patentable. You can
22 patent processes. You can patent other things. We
23 have taken copyright protection in some cases, to the
24 extent that we can, and where we've found
25 infringement, if it is a truly, truly unique visual,

1 we have addressed it. But it's very difficult to do
2 because you're talking about a very natural species,
3 whether it's oak, hickory, maple, regardless, you're
4 talking about a natural product with natural character
5 variation, and you're adding a color and maybe a
6 little bit of distressing to it. So patent
7 enforcement is almost impossible. Copyright is
8 difficult.

9 MR. GOETZL: I assume that some of the face
10 veneers that are used for multilayer wood flooring are
11 tropical or exotic species not available here in the
12 U.S. Do any of you manufacture your multilayer wood
13 flooring using species that you're importing the
14 veneers for?

15 MR. LEVIN: Just to make sure we don't go
16 into confidential information, we'll address it in the
17 brief, if we may.

18 MR. GOETZL: Okay. And a general response
19 will be fine. I guess what I'm trying to get at is
20 obviously the cost of importing veneer tropical
21 species are going to be higher than using domestic
22 species. So I'm just trying to get a handle on what
23 percentage of the market is accounted for by that.

24 MR. LEVIN: Understood.

25 MR. GOETZL: With that, I don't have any

1 other questions. I again want to express my
2 appreciation for all of you coming out this morning.
3 This is extraordinarily helpful. I look forward to
4 your responses to some of our questions in your post-
5 conference briefs. Thank you very much.

6 MS. DeFILIPPO: Thank you. We will now turn
7 to our attorney, Mr. Fishberg.

8 MR. FISHBERG: Yes. I was going to say good
9 morning, but now I have to say good afternoon,
10 panelists, just about. For the record, my name is
11 David Fishberg. I'm from the Office of General
12 Counsel. My questions for this panel -- actually,
13 first I'd like to thank the panel for coming. My
14 questions for this panel -- Respondents, you should
15 also answer any of these questions in your post-
16 conference briefs and vice versa.

17 So at the outset, I'd just like to take
18 Mr. Levin on your offer to address any like product
19 issues in a post-conference brief. I know you did
20 some of that already in the petition. But I guess
21 we'll see later this afternoon if there are other more
22 specific issues that you might have to address in the
23 brief.

24 MR. LEVIN: Uh-oh. I really didn't expect
25 you to take me up on the offer.

1 (Laughter)

2 MR. FISHBERG: You always have to be careful
3 once you offer up something here, that we just might
4 take you up on it.

5 MR. LEVIN: I'll be happy to.

6 MR. FISHBERG: Great. The other issue would
7 be on related parties, some of the information that
8 came out today. Again, if you could -- and again, I
9 know you did some of it in the petition. But if you
10 could address it a little further in your post-
11 conference brief, that would be helpful as well.

12 MR. LEVIN: Absolutely.

13 MR. FISHBERG: Thank you. One other thing
14 in terms of the Catalina report. I know we're trying
15 to get the best data sources we possibly can, and in
16 this industry it appears it's going to be difficult to
17 get a perfect data set. But I know that you mentioned
18 that you would be going back to Catalina and trying to
19 get some more information out of them. You know, one
20 of the things you could do is sort of with the report
21 that they issued and sort of lining it up with the
22 scope of this proceeding, and potentially in your
23 post-conference brief, if you could sort of
24 specifically -- if you get responses back from them,
25 specifically tell us how this data is over-inclusive

1 or under-inclusive. You might think that would be
2 helpful if you could point out any specifics in terms
3 of how the Catalina report, I guess, lines up with the
4 specific scope of this proceeding.

5 MR. LEVIN: To the extent possible, we'd be
6 happy to.

7 MR. FISHBERG: Thank you. One question to
8 the panel in general -- I know you discussed some
9 conditions of competition in the market dealing with
10 demand, supply, substitutability. Are there any other
11 conditions that are specific to this industry that we
12 should know about when we decide this case?

13 MR. LEVIN: If we may, especially because
14 the industry folks may not be all that familiar with
15 the factors that the Commission typically looks at --
16 if we could go back and address that in the brief.

17 MR. FISHBERG: That would be fine. If there
18 is anything else that we should know about that will
19 affect our analysis of volume pricing impact, if there
20 any other conditions that are specific to this
21 industry, feel free to put that in your post-
22 conference brief.

23 MR. LEVIN: Absolutely.

24 MR. FISHBERG: Great. Mr. Levin, I know you
25 discussed a bit the role of non-subject, that they are

1 not -- or they would not allow us not to make a
2 finding of causation in this one. Could you describe
3 sort of the trends for non-subject? Are they sort of
4 just going along the lines of demand trends as well as
5 pricing for non-subjects? Where do they fall in your
6 experience? Are they higher than the subject imports,
7 but still lower than domestic prices? Are they higher
8 than both? What has been your experience in terms of
9 non-subject imports?

10 MR. LEVIN: Again, let me work off the
11 numbers instead of just working off of memory. That
12 being said, I do note, as we did in the petition, that
13 the imports from China are the lowest of the principal
14 non-subject import sources. Furthermore, it is my
15 understanding from conversations with these gentlemen
16 and others that there may be suppliers in third
17 countries that are also adversely affected by imports
18 from China because there is some competition between,
19 for example, an Indonesian product and a Chinese
20 product. And the Chinese product is also driving the
21 price of the Indonesian product down. But we'll look
22 at it more closely.

23 MR. FISHBERG: Okay. And, I mean, in terms
24 of just sort of the industry witnesses, their
25 experience in the market, I assume it has been your

1 experience that you have been attempting to match
2 Chinese prices for the most part, and not other
3 countries' prices. Is that the case?

4 MR. NATKIN: As I said in my testimony,
5 China drives price. It's not that we're running up
6 against the Brazilians or the Indonesians or the
7 Malaysians or the Europeans, and they're the causal
8 price factor. It's the Chinese almost every single
9 time.

10 MR. DOUGAN: This is Jim Dougan from ECS,
11 Mr. Fishberg. If I can just respond using the public
12 data that are in the petition from the Catalina
13 report. In 2009, China represented 71 million of the
14 98 million square feet in imports. They're average
15 unit value was \$1.68 per square foot. The next, say,
16 three or four -- Canada was the next largest at 4
17 million square feet, average unit value of \$4.61.
18 Sweden was next at about 3.9 million square feet,
19 average unit value of \$2.40. Brazil next largest at
20 \$3.39. And then Indonesia at \$1.82, going down to
21 Thailand, \$2.89.

22 So again, not only does China dominate,
23 absolutely dominate, import volume, they are by far
24 the lowest price.

25 MR. FINKELL: I would say, you know, if we

1 have a product that is a Brazilian cherry face, we're
2 not going to match that price because we don't make
3 that product. But if you're talking about a product
4 that is almost indistinguishable from our product,
5 then, yes, we're going to have to be more aggressive
6 to try to save that business where it pops up.

7 MR. FISHBERG: Are there any product mix
8 issues in terms of subject imports and domestically
9 produced product? I know you mentioned that there
10 might be some with non-subject merchandise. But I
11 think it's your stance that there are no real product
12 mix issues that would affect our ability to rely on an
13 AUV analysis for prices?

14 MR. LEVIN: There are no product mix issues.
15 There is nothing that comes from China that domestic
16 producers would not be more than happy to use the huge
17 percentage of underutilized production capacity to
18 manufacture.

19 MR. FISHBERG: Okay. Can you describe a
20 little bit the contracting process for this product?
21 How transparent is the market? How long are the
22 contracts? I know one of the -- you customarily today
23 I think mentioned that -- I'm using your words --
24 China -- the surge into the market has been a
25 relatively recently phenomenon. Is there something

1 about this market in particular that would allow that
2 to happen? Do purchasers switch suppliers often? Are
3 the contracts short-term? Is there a lot of
4 transparency in the market that would allow that? If
5 anyone could comment on that, that would be helpful.

6 MR. NATKIN: From our perspective, there is
7 not a lot of contract filling in the market. It's
8 very much a spot buy kind of market. We may enter
9 into a 6-month or 12-month pricing agreement with a
10 big builder or something like that. But that's a much
11 smaller percentage of our business. A lot of it is
12 just transaction to transaction. So that's where in
13 particular things like cloned products came into play.
14 I've got this product that cost X. I've got this
15 product that cost Y. Look, they look the same. I'll
16 take the one that costs Y.

17 MR. FINKELL: We have overall agreements
18 with distributors that talk about how we're going to
19 handle, you know, business transactions, and then we
20 publish a price list, and then we sell off the price
21 list. And then as we get competition, usually it's
22 with a specific large user of their customer, not our
23 customer, and they'll come back and say, you know,
24 they've got a product that looks, you know, good
25 enough, or looks the same. And they're getting a

1 better price. And so we will respond to that
2 situation with a file back, usually just specifically
3 covering what to sell to that one. And then you have
4 another one over here and another one over here, and
5 then pretty soon you've got, you know, just a --
6 you've got an assault on your price list. You know,
7 it's hard to maintain the prices.

8 So, you know, I guess to the issue of
9 contracts, we sort of have a maximum price, but when
10 somebody comes out with a better price, you know,
11 we're kind of forced down to meet it.

12 MR. FISHBERG: One thing I also noticed, I
13 think in terms of capacity over the period of
14 investigation, it has remained relatively flat. Is
15 there something about this industry that doesn't allow
16 sort of capacity reductions or increases on a
17 relatively short-term basis? Is it capital intensive?
18 Do you have to keep on producing and sacrifice
19 pricing? Or if anyone could discuss that.

20 MALE VOICE: Well, we tend to -- you know,
21 if you're going to try to reduce capacity, you tend to
22 do it in shifts, you know. So you have an increment
23 where, you know, you can -- people have to -- you
24 know, they have to get a full week pretty much or
25 they're going to, you know, go look for another job.

1 So you tend to reduce not the physical capacity of a
2 plant, but the number of shifts that you run. So we
3 certainly have done both. We've reduced shifts, and
4 we've closed plants. We closed two plants, and we're
5 looking at a third.

6 MALE VOICE: In our case, the way we looked
7 at -- or we look at capacity is we made an investment
8 about six years ago in our manufacturing operations to
9 increase the capacity. And it's really based on the
10 equipment capabilities. Very much like Don just said,
11 what we've reduced are people. The capacity remains
12 there, but we've reduced people and cut shifts so that
13 our -- to match our physical production requirements.

14 MR. FISHBERG: And this capacity and shifts,
15 are they specific to the multilayered wood flooring?
16 Or are they working on -- do they work on other
17 products that you produce? These reductions are
18 specific to this specific product?

19 MALE VOICE: Specific to multilayered wood
20 flooring. That's the only thing that we produce in
21 our two manufacturing plants.

22 MALE VOICE: It's common with all or most
23 domestic manufacturers.

24 MALE VOICE: We have multilayered wood
25 flooring plants. We have three main ones, and then we

1 have solid wood flooring plants. But they're distinct
2 from each other.

3 MR. FISHBERG: Thank you. Is there any sort
4 of price premium that the domestic industry gets
5 because it's a domestically produced product over
6 China? Is there any -- again, I don't know if it's
7 branding or perception that the domestic product --
8 again, there is some sort of price premium over
9 subject imports? You know, do your distributors
10 prefer the domestic product over the Chinese product?
11 Or is it just substitutable? It's all just price,
12 price, price?

13 MALE VOICE: You can hold the business if
14 you, you know, match the price or within pennies of
15 the price. But the industry and the categories have
16 gotten so price conscience that you don't -- you're
17 not worth a premium or brand name or quality or
18 reputation. The fact that we're a domestic supplier
19 doesn't qualify for a premium of any consequence.

20 MR. FISHBERG: Okay.

21 MALE VOICE: I would support that. I mean,
22 you can -- certainly, if you can afford to create a
23 consumer brand, you know, a recognized consumer brand
24 -- that's not the case in most flooring. Most
25 flooring is the recommendation of a salesperson in the

1 store. If the consumer comes in, you know, and asks
2 about this type of product, they're going to -- if the
3 salesperson establish credibility with the consumer,
4 which is usually what they're good at doing, they can
5 steer them to whatever product they want.

6 So they -- in a lot of ways, they can
7 overcome brand. So we see that being less and less of
8 a factor, the value of brand.

9 MR. FISHBERG: Well, maybe distributors will
10 know the difference. I mean, do purchasers even know
11 in the end if what they're getting is a domestically
12 produced product or subject or even non-subject
13 product?

14 MALE VOICE: I would say frequently they
15 don't. And in some of the imported products, they are
16 named in a brand manner or in a product name manner to
17 intentionally disguise the source of origin.

18 MR. FISHBERG: Are there any industry
19 certifications for this product that -- again, are
20 there any industry certifications that I guess -- like
21 standards that the subject imports have not been able
22 to meet, or anything? Or is it -- are you aware of
23 any sort of again industry-wide standards that again
24 the domestic industry has been able to meet, but
25 subject imports have not been able to meet?

1 MALE VOICE: I mean, there is an ANSI HPBA
2 standard for engineered wood floors. But I would
3 think that most of these imports would meet it, if
4 they joined HPBA, or if they requested a testing. I
5 don't think there is any barrier to them coming in
6 based on a standard.

7 MALE VOICE: The HPBA standard is a
8 voluntary standard.

9 MR. FISHBERG: Are you aware of any -- this
10 is sort of basically for Mr. Levin. Are you aware of
11 any other antidumping or investigations on this
12 specific product?

13 MR. LEVIN: No, we are not.

14 MR. FISHBERG: And I guess the only other
15 thing I have -- and I know you did it again in your
16 petition, and in some of your testimony today. But,
17 Mr. Dougan, if you could just address the factors the
18 Commission evaluates in making its threat of injury
19 determination in your post-conference brief, that
20 would be helpful.

21 MR. DOUGAN: Will do.

22 MR. FISHBERG: That's all the questions I
23 have, and once again, thank you very much for your
24 testimony today.

25 MS. DeFILIPPO: Thank you, Mr. Fishberg.

1 Ms. Martinez, do you have any questions for this
2 panel?

3 MS. MARTINEZ: Keysha Martinez, Office of
4 Investigations. Thank you all for being here. My
5 colleagues have asked all the questions I had. Thank
6 you.

7 MS. DeFILIPPO: Thank you. Mr. McClure?

8 MR. McCLURE: Jim McClure, Office of
9 Investigations. First of all, I want to thank all of
10 you for being here. My normal practice is to come out
11 and shake your hands afterwards. But if I did, you
12 would not only have filled out a Commission
13 questionnaire, you'd be living with the flu. So I
14 don't think the government wants me giving you the
15 flu.

16 I just want to reemphasize the point that
17 Fred and Alberto made and everybody about the
18 importance of the data, giving us your best shot as to
19 what import numbers we should use. Fred and I and
20 Alberto, we're veterans of the softwood lumber wars
21 for more years than any of us care to count. And I
22 had forgotten how much it is to try to come up with
23 import numbers in wood products investigations.

24 That said, again thank you for your
25 testimony, and don't get near my microphone.

1 MALE VOICE: Thank you, and thank you for
2 the warning.

3 MS. DeFILIPPO: Thank you. I usually write
4 down questions as we go along and cross them out as
5 staff asks them, and as usual staff has done a very
6 good job. I think I have a couple of things that I
7 just want to ask before I release you from this panel.
8 I believe earlier this morning someone indicated that
9 you guys do import from China. Are the products
10 you're importing similar to what you're producing, or
11 are you producing to supplement a product line?

12 MALE VOICE: In our case, it's a little bit
13 of both. We do import some price sensitive products
14 at prices that we can hit to meet a market need, and
15 then in some cases some products that we don't choose
16 to manufacture, although we could, could we remain
17 cost competitive.

18 MALE VOICE: I don't believe we import any
19 of the products that are included in the petition. We
20 do import some bamboo-type products. But to my -- I'm
21 sure that's all there is.

22 MALE VOICE: I just want to make sure that
23 I'm clear. It's not because we can't produce it. We
24 can produce anything we want. But it's mostly because
25 of causal factors like price.

1 MS. DeFILIPPO: Okay. Thank you for that.
2 Mr. Finkell, earlier I believe you made a statement
3 that you dropped 30 percent of the products you were
4 producing. Is that correct? Did I hear correctly?

5 MR. FINKELL: Yes. We went through, and we
6 did what we call an SKU rationalization. It's a
7 strategic stock keeping unit, SKU, and it's how many
8 individual, you know, products you're making, either
9 different -- you know, you have one, you know,
10 platform, and three different colors, or something
11 like that. And so, you know, we do this. We go
12 through, and if we're not making enough of that to
13 justify the marketing and sales effort -- and also,
14 you know, it flows down the production run if you have
15 to change over colors and things and make a different
16 product.

17 So, you know, you have a -- you always have
18 this push and pull between having selection for the
19 consumer and having, you know, fewer numbers of
20 products to run so that you can lower your cost. So,
21 yes, we dropped 30 percent of them, and then we've
22 added back maybe, you know, 5 percent of new products,
23 or 10 percent or so.

24 MS. DeFILIPPO: So it's fair to say that
25 decision was made based on basically demand or

1 production levels, not necessarily -- you weren't
2 dropping them because of competition with imports in
3 those products.

4 MR. FINKELL: Well, I would say most of
5 those products enjoyed sales in the past, and a number
6 of them, you know, don't have enough sales now to
7 justify maintaining them. So, you know, it's hard for
8 me to say that it was all due to competition, but
9 certainly competition was a factor in that decision.

10 MS. DeFILIPPO: Thank you. That's helpful.
11 Mr. Holm, earlier you made a statement that you
12 indicated you carry pretty heavy inventory. Have
13 inventory levels been fairly constant over the POI, or
14 have there been any changes as the economy has changed
15 or competition has changed where you get more or less?

16 MR. HOLM: Or inventories have come down as
17 the rate of sales has come down, so proportionately,
18 but not exactly because it's hard to -- just as Don
19 was talking about, the number of SKUs has not come
20 down proportionately with the size of the business.
21 So our inventories are down from where they were, but
22 inventory turns are probably lower.

23 MS. DeFILIPPO: Okay. Thank you. That's
24 helpful. Do any of you guys export the multilayered
25 wood flooring products that are in the scope of this

1 investigation?

2 MALE VOICE: Just to Canada and to Mexico
3 only.

4 MS. DeFILIPPO: Okay.

5 MALE VOICE: We import --

6 MS. DeFILIPPO: No. Export, sorry.

7 MALE VOICE: Excuse me.

8 MS. DeFILIPPO: Okay.

9 MALE VOICE: Into Canada, and we do -- we
10 have exported a little bit into China, and through our
11 relationship with Pardi Corp. And we also sell, you
12 know, from time to time in other countries, but we
13 don't have any long-term, you know, consistent
14 customers in other countries.

15 MS. DeFILIPPO: Okay. Are demand conditions
16 in those countries then similar in terms of being
17 difficult due to the recession?

18 MALE VOICE: I think that the short answer
19 to that is yes. The Canadian economy and the Mexican
20 economy has closely followed ours.

21 MALE VOICE: Yeah. The Canadian -- I think
22 the Canadians missed most of the housing bubble,
23 though, so they seem to be a little bit brighter than
24 what we are.

25 MS. DeFILIPPO: We've talked today about new

1 construction and remodeling. Is this product used at
2 all in institutional applications, like gym flooring
3 or nursing homes or hospitals or those kind of things?
4 Or is it primarily just in homes.

5 MALE VOICE: I'll say from our perspective
6 the majority is used in residential construction and
7 remodeling. We do do some -- well, we phrase it
8 commercial. So that would be you walk into the local
9 Abercrombie & Fitch, or Carrebas, and we do enjoy some
10 in there. Gym floors tend to be a solid wood floor of
11 very special construction.

12 MALE VOICE: I would say our commercial
13 sales are maybe 4 to 5 percent. So it's over 95
14 percent that goes residentially.

15 MS. DeFILIPPO: Okay. I believe Mr. Fetzer
16 earlier had asked about some of the substitute
17 products, solid wood flooring or carpeting, and then
18 we've talked about the residential versus -- I mean
19 new construction versus remodeling. In terms of
20 competition with other products, do you see -- does it
21 differ in terms of what you're looking at in terms of
22 new homes versus remodeling? Do you compete more with
23 carpet in new homes than you would in the remodeling?

24 MALE VOICE: I think that the remodeling
25 sector tends to be a little higher end, so you

1 probably have a better shot there. The builder market
2 tends to be more mass production, and price is an
3 issue. But there are builder tracts that are high end
4 like gated communities, which are not as prevalent as
5 they used to be. The McMansions they used to call
6 them.

7 So I would say remodeling tends to be more
8 higher end.

9 MS. DeFILIPPO: Okay. Thank you. One last
10 question. In Respondent's opening statement, they
11 talked about three key aspects in the market, one of
12 which they talked about was -- and we may hear more of
13 it this afternoon. So to the extent that I'm not
14 making this clear, and they do, and you want to touch
15 on it in your brief, that would be fine. It was a
16 statement that was sort of they've been more effective
17 or more efficient in distribution. And I just didn't
18 know if you had any comments on whether you see any
19 difference in the distribution abilities of the U.S.
20 producers. I wasn't quite sure, and I hopefully will
21 hear more on that this afternoon on what they meant by
22 that.

23 But do you feel there is any difference in
24 ability to get to the market or efficiency in
25 distributing your product that they may have or you

1 may have?

2 MALE VOICE: No. And I would be guessing as
3 to where they're going with that. I think it's more
4 downstream capabilities through some of the retailers.
5 But I think we would like to learn more.

6 MS. DeFILIPPO: Okay. Thank you. I'm
7 sorry. I did have one last question that was on the
8 back of this page. Mr. Ruggles talked earlier about
9 competing for resources in terms of China sometimes
10 buying the input material and shipping it over there.
11 And you talked about that in terms of saying, yes, we
12 do compete. But just to clarify, did you ever during
13 the period we're looking at have any difficulty
14 obtaining your inputs in terms of not being able to
15 get it because of competition with other --

16 MALE VOICE: No.

17 MS. DeFILIPPO: And did that affect any of
18 your production?

19 MALE VOICE: No.

20 MALE VOICE: No. From our perspective, no.

21 MS. DeFILIPPO: Okay. And during the
22 period, did any of you ever have any difficulty
23 supplying your customers in terms of not being able to
24 get them either in the time they wanted or in the
25 quantities they wanted any products? And if so,

1 you're more than welcome to present that in a brief.

2 MALE VOICE: No.

3 MALE VOICE: Well, like I said, Shaw has an
4 over 98 percent, you know, fulfillment rate. So, I
5 mean, that's pretty good. Anderson, through its
6 distributors, I would say is probably similar.

7 MS. DeFILIPPO: Okay.

8 MALE VOICE: So I think that's not an issue
9 really. We have a lot of capacity that is not being
10 used, so it hasn't been that big a factor.

11 MS. DeFILIPPO: Okay. Those are all the
12 questions that I have. I'll look up and down the
13 table to make sure nobody has any additional. With
14 that, we are finished. Again, I would like to say
15 thank you to the panel, not only for your testimony,
16 but for being very patient with our questions. It is
17 always difficult learning new industries, and so
18 you've been very helpful in our understanding of that.
19 So we very much appreciate that.

20 MALE VOICE: Madame Chair and members of the
21 investigation team, thank you.

22 MS. DeFILIPPO: For those of you that aren't
23 familiar with our procedures, generally we tend to try
24 and power through the day. But we will take maybe a
25 15-minute break just to stretch our legs, use the

1 restroom, et cetera. So my watch says 12:25, which is
2 different than the clock. So we're going to go by
3 that. So 12:25, and we'll come back about 12:40.

4 (Whereupon, a brief recess was taken.)

5 MS. DEFILIPPO: Welcome back, everyone.

6 We will now get started with our second
7 group, those in opposition to the imposition of
8 countervailing and antidumping duties. We have a nice
9 big panel with us. It's not to see to have some
10 Respondents with us today, so I appreciate you all
11 being here, and it's my understanding that you all
12 have worked out a split, and so we will give a sign,
13 so Mr. Neely will have some time at the end.

14 So we will start, I guess, Mr. Ludwikowski,
15 will you be the first one?

16 MR. LUDWIKOWSKI: Yes. We will introduce
17 our panel. The first -- actually, just to begin there
18 are three individuals who will be present from our
19 side here from Home Legend, Lumber Liquidators and
20 U.S. Floors, all can talk to the issue of remodeling.
21 They are all in that business.

22 MS. DEFILIPPO: Okay.

23 MR. LUDWIKOWSKI: So I think with that I
24 will pass it on to Mr. Hubbard.

25 MS. DEFILIPPO: Perfect. Thank you.

1 Welcome, Mr. Hubbard.

2 MR. HUBBARD: Thank you. Good morning, Ms.
3 DeFilippo and Commission staff.

4 My name is Clint Hubbard and I am the Chief
5 Executive Officer of Home Legend. I believe that the
6 petition does not accurately describe the condition in
7 the U.S. for the multilayered wood flooring industry.

8 Home Legend, a U.S. company, was founded in
9 1997 and offers durable, high-quality, eco-friendly
10 engineered wood, bamboo cork, and laminate flooring,
11 as well as area rugs. My family has been in the
12 flooring business for two generations, and I have
13 worked in flooring since 1986.

14 Home Legend services over 2,000 retail
15 stores, both big box and independent retailers. Our
16 company is committed to its mission of providing
17 innovative products, great customer service, and
18 values to the U.S. consumer. We believe our products
19 are both highly desirable and cutting edge.

20 Home Legend has been able to weather the
21 economic downturn mainly because the company has
22 offered innovative products to service the residential
23 remodeling and replacement sector. In particular,
24 Home Legend has focused on a click-lock floating
25 floor, a product line which targets the do-it-yourself

1 consumer. This product line allows for easy, no-cost
2 installation by the consumer or low-cost installations
3 by professional installer because the flooring does
4 not need to be nailed or glued down.

5 By concentrating on products that are
6 appealing to the value-minded consumer, Home Legend
7 has been able to sustain sales growth and create U.S.
8 jobs. U.S. manufacturers have been slow to adopt
9 these technologies which have taken market share from
10 traditional products that require more extensive
11 installation.

12 In contrast to those U.S. companies like
13 Home Legend that have focused on remodeling, many U.S.
14 manufacturers are heavily dependent on home and
15 commercial construction. These sectors have been
16 severely affected by the general downturn in the U.S.
17 housing market. In addition, at least one leading
18 Petitioner chooses not to do business with primary big
19 box customers that focus on this DIY sector.

20 Home Legend expects to see increased growth
21 in multilayered flooring in 2011 and beyond for
22 imports and domestic products. There are several
23 reasons for this anticipated growth. Remodeling is a
24 hot trend and multilayered wood is an attractive
25 option for remodeling. The new generation of flooring

1 that is available looks elegant, yet is durable and
2 easy to care for. Flooring is also seen as a lasting
3 investment in one's home.

4 As consumers face an uncertain and difficult
5 housing market many are choosing to stay in their
6 current homes and improve and update rather than move.
7 Further fueling this interest, especially do-it-
8 yourself remodeling, gets media attention from shows
9 like Designing Spaces and This Old House. Major
10 retail advertising that encourages the consumers to
11 tackle these type of projects has also helped to
12 promote this trend. We expect to see growth in
13 multilayered wood flooring as home building resumes.

14 Bob Murray with McGraw-Hill recently
15 projected that construction spending for single family
16 housing will increase 27 percent in 2011. Wood
17 flooring will be an attractive option in new
18 construction for many of the same reasons that it is
19 an attractive option for remodeling.

20 The engineered wood flooring market has
21 undergone a product evolution in the last few years.
22 Among the new flooring options are bamboo products,
23 cork products, as well as many exotic species of hard
24 woods which are not available domestically. Imports
25 have helped diversify and provide otherwise

1 unavailable product mix for the consumer.

2 And example of certain types of flooring
3 that has yet to be fully embraced by domestic produces
4 is engineered wood products made with high-density
5 fiberboard, or HDF core, much of which is made from
6 post-industrial recycled content. These products have
7 been attractive sellers because they are
8 environmentally friendly and easy to install due to
9 their click-lock joint technology. Only a few
10 domestic producers manufacture this type of product,
11 but it has been available as a high-quality import.

12 This product has been mentioned earlier by
13 the Petitioners. I have samples here of the
14 domestically manufactured product and one of my
15 products, and can demonstrate the older technologies
16 employed by the domestic producers.

17 In a recent line review at a major retailer,
18 no domestic producer was able to offer these products
19 with these technological advancements. The award of
20 this business had nothing to do with price.

21 In summary, the Petitioners attribute their
22 declining sales to imports. The problem with this
23 argument is that sales for flooring in all categories
24 have declined along with the economy in general, and
25 much of that growth of imports is in products not

1 produced domestically.

2 Thank you for the opportunity to express my
3 views to the Commission, and I welcome any questions

4 MR. LUDWIKOWSKI: Thank you, Clint.

5 Our next speaker will be John Jakob from
6 Lumber Liquidators.

7 MR. JAKOB: Good afternoon, Ms. DeFilippo
8 and Commission staff. My name is John Jakob and I am
9 the director of merchandising for Lumber Liquidators.

10 Lumber Liquidators opposes the petition
11 because it does not accurately identify the cause of
12 the alleged injuries to the domestic engineered
13 flooring market. Specifically, the petition ignores
14 the failure of certain domestic producers to recognize
15 opportunities in the flooring market, including the
16 growing do-it-yourself and buy-it-yourself market.
17 Further, the petition glosses over key customer demand
18 issues that have necessitated the importation of certain
19 products from China to meet customer demand.

20 To give the Commission a bit of background
21 about Lumber Liquidators, the company was founded in
22 1994 by Tom Sullivan from the back of a warehouse in
23 Boston. Tom believed that traditional home
24 improvement for flooring retailers have underserved
25 the home owner in terms of selection, quality, price,

1 and product availability. He believed that by
2 establishing relationships directly with vendors and
3 mills he could provide customers with broad, high-
4 quality assortments of products at attractive prices
5 and provide advice on do-it-yourself.

6 Tom opened his first store in 1996, and
7 Lumber Liquidators has grown into the largest
8 specialty hardwood flooring retailer in the U.S. with
9 216 stores in 46 states. We have a lean management
10 structure and cost-out control is a key component to
11 our company culture. We currently employ more than a
12 thousand employees throughout the country.

13 Early in the company's history Tom contacted
14 numerous suppliers, both foreign and domestic, in an
15 effort to secure high-quality products that could be
16 sold directly to consumers. Many of these suppliers
17 did not appreciate Tom's business model and refused to
18 provide the products and service that Tom requested.
19 Many of these suppliers were focused on serving the
20 new home construction industry to the exclusion of the
21 do-it-yours or buy-it-yourself segments.

22 Other suppliers embraced Tom's vision. With
23 regard to multilayered wood flooring, we work with
24 manufacturers in the U.S. China, Canada, and Brazil.
25 After a lengthy and stringent qualification process,

1 we have utilized these producers to manufacture our
2 high-quality proprietary brands in accordance with our
3 specifications. Product quality and supplier
4 reliability are crucial factors to our purchase
5 decisions.

6 Consistent with this criteria, we have
7 developed relationships with certain Chinese
8 manufacturers that are committed to meeting our needs
9 and our requirements. Specifically with regard to
10 quality, our customer complaints on engineered
11 products from our suppliers in China are extremely
12 low. When issues to arise our suppliers have been
13 proactive in responding. We believe that with this
14 responsiveness and the heightened service level that
15 we receive it is a direct result of a distinctive
16 relationship with these mills that have developed over
17 time.

18 Furthermore, our Chinese manufacturers
19 supply species unavailable to the U.S., specifically
20 Asian birch and decatia. It so happens that these are
21 our most popular brands, our most popular products,
22 and they provide specific visuals that are achieved by
23 the natural aspect of the species.

24 Based on our experience several trends are
25 clear:

1 First, there is a strong demand for
2 engineering wood flooring as it provides a quality
3 flooring option that in several respects is superior
4 to solid wood, and that it can be installed in a wide
5 variety of applications and locations.

6 Secondly, we are also increasing our sales
7 of laminates. These are competing products that are
8 gaining shares as customers seek a value in a
9 depressed economy.

10 Third, while the new housing market has been
11 extremely depressed, the remodeling and replacement
12 markets have performed better, and we have benefitted
13 from the relatively strong growth of the do-it-
14 yourself and the buy-it-yourself markets. This gives
15 us an advantage as compared to some U.S. mills that
16 concentrate on the sales to builders of new homes.

17 Finally, our position in the market as the
18 leading retailer gives us a unique perspective on
19 demand conditions and our customers' requirements.
20 Tom's vision which is proven to be correct, and he was
21 able to grow our business despite the difficult macro
22 economic environment.

23 This petition stems from the domestic
24 producers realization that they failed to identify and
25 adapt to the changing market trends. If they truly

1 have been injured, such injury is likely self-induced
2 due to their inability or unwillingness to identify
3 the consumer demands and adjust their production and
4 marketing efforts accordingly.

5 For these reasons, Lumber Liquidators
6 opposes the petition. Thank you.

7 MR. LUDWIKOWSKI: Thank you, John.

8 And next we would like to introduce Mr. Pete
9 Dossche from U.S. Floors, and he is the illusive U.S.
10 producer that opposes the petition.

11 MR. DOSSCHE: Good afternoon, Ms. DeFilippo
12 and Commission staff. Thank you for the opportunity,
13 first of all, to address the Commission here this
14 afternoon. My name is Pete Dossche. I am the CEO of
15 U.S. Floors, and I oppose the petition as I do not
16 believe these imports are causing any injury to the
17 U.S. flooring industry nor do I expect them to cause
18 any injury in the future.

19 U.S. Floors is a manufacturer and importer
20 of wood flooring based in Dalton, Georgia, focusing
21 only on unique and sustainable flooring products such
22 as bamboo, cork and sustainable wood floors. I have
23 been working in the flooring industry for the last 20
24 years, first in Europe and then since 1990, in the
25 United States.

1 I started U.S. Floors in 2001 from my guest
2 bedroom with a cell phone and a fax, and the drive to
3 build the business and create the American dream, a
4 dream which brought me to this country in the first
5 place. Today, U.S. Floors employs over 100 people,
6 and is a leader in sustainable flooring in the U.S.

7 With the employment in Dalton peaking at 14
8 percent in early 2009, this investment and job
9 creation by U.S. Floors was a welcome spark of good
10 news in a very depressed labor market.

11 In 2008, U.S. Floors invested over \$10
12 million in a state-of-the-art manufacturing facility
13 in Georgia, processing and finishing imports
14 unfinished flooring from countries all over the world,
15 including China. For my business to survive, it is
16 vital that I have access to unfinished flooring
17 materials. In my view, unfinished flooring products
18 should not play a role in your injury analysis as they
19 need further manufacturing and finishing in the United
20 States before they can be sold.

21 First of all, the coalition states they have
22 the support of the domestic multilayered wood flooring
23 engineers. That is not correct. Before addressing
24 injury, it is important that you understand that U.S.
25 Floors is a domestic company and has not been

1 contacted at all by the coalition to voice its opinion
2 pro or against this petition.

3 The coalition clearly knows that U.S. Floors
4 is a manufacturer of multilayered wood flooring since
5 one of the Petitioners was hired by U.S. Floors in
6 2008 to be the consultant on the equipment and layers
7 of our plant. In addition, we have been noticed in
8 numerous trade magazines. This is an example in the
9 "Floor Cover Weekly".

10 Therefore, I do not believe that Petitioners
11 represent the majority opinion of the domestic
12 multilayered wood flooring manufacturers.

13 The claim that Chinese imports have injured
14 the entire domestic hardwood flooring industry is
15 simply wrong. Imports from China are not the cause of
16 any alleged injury to Petitioners. No domestic
17 multilayered wood flooring manufacturer has gone out
18 of business in the last couple of years. All wood
19 flooring, including engineered wood flooring, enjoyed
20 an unprecedented boom during the housing bubble which
21 ended in 2006. When the market collapsed and new
22 construction came to a halt, U.S. demand for solid
23 flooring, a main state product of the Petitioners,
24 dropped dramatically.

25 Demand for engineering flooring, on the

1 other hand, began to grow as Americans started
2 remodeling their existing homes and looked for
3 flooring solutions that they could more easily install
4 themselves.

5 With American consumer demand rising, U.S.
6 Floors responded by developing and sourcing a wider
7 selection of engineered flooring from manufacturers
8 with the capability of producing these innovative
9 products at a quality level my customers demanded.
10 These Chinese products fill a void as Chinese
11 companies were proactive and responses to my company
12 while U.S. companies were much slower to adapt.

13 Realizing the demand for this sought after
14 eco friendly product was here to stay, we adapted our
15 business and significantly invested in a new U.S.
16 manufacturing plant which primarily produces
17 engineered wood flooring. We also continue to source
18 and important prefinished engineered wood flooring
19 from China and other countries around the world. In
20 this way U.S. Floors was able to become more
21 successful than some other U.S. companies which did
22 not adapt to the changing economic environment and
23 consumer taste.

24 This created a more unique product line that
25 U.S. customers wanted and unlike some other U.S.

1 companies, which simply didn't have the vision or
2 business model to adapt as the industry and the
3 economy changed and stayed stuck in a high-energy and
4 two-step distribution model. This is the real issue
5 before you today. The petitioning companies made
6 mistakes and failed to adequately respond to changes
7 in market trends.

8 It appears however that several Petitioners
9 are doing quite well. For example, Sum deforest, a
10 member of the coalition, has been successful during
11 2010 who signed up several top-quality distributors
12 for its products. In the last six months, they signed
13 up six new distributors. This is hardly the sign of a
14 company in distress. So where is the injury?

15 And Stahl Industries, who is the largest
16 manufacturer to form part of this coalition, published
17 an ad in one of the trade magazines where it claims to
18 be manufacturing the fastest growing hardwood products
19 today, and in order to meet its growing demand, it is
20 having to add people in their manufacturing plants in
21 South Pittsburg, Tennessee, where they manufactured
22 this epi collection, which is at the heart of this
23 dispute, and it proves that when U.S. manufacturers
24 invest in the right technologies and right innovations
25 they can be successful. So where again is the injury

1 from Chinese imports?

2 In closing, I would like to reconfirm my
3 position of opposing this petition. Chinese imports
4 do not represent the threat of injury to domestic
5 producers as demonstrated by the Petitioners own
6 statement and ads. They are adding capacity,
7 providing evidence that the overall market of
8 engineered wood flooring is successfully competing
9 with imports.

10 Thank you, and I welcome any questions.

11 MR. LUDWIKOWSKI: Our next speaker will be
12 Tom Rogers with Capital Trade.

13 MR. ROGERS: Good afternoon. My name's Tom
14 Rogers of Capital Trade, and I'm joined by my
15 colleague Andrew Szamosszegi. We're here today on
16 behalf of Lumber Liquidators, Home Legend, and U.S.
17 Floors. Now before discussing the question of
18 causation I want to highlight several key conditions
19 of competition in the U.S. wood flooring market.
20 First, the overall market for multilayer or engineered
21 wood flooring has evolved dramatically over the past
22 decade. And as you've heard, consumption has
23 increased sharply, rising from 215 million square feet
24 in 2002 to nearly 600 million square feet in 2006.

25 Since then as the housing market began to

1 collapse consumption of all floor covering products
2 fell and generally declined over the period. Wood
3 flooring, however, performed relatively well and
4 managed to capture an increasing share of the total
5 U.S. floor covering market. Now the Commission has
6 looked at this industry a couple years ago in its 332
7 investigation. The Commission found that engineered
8 products had both expanded the overall wood flooring
9 market and captured share from solid wood products.

10 Imports contributed to this expansion
11 spurring additional demand for multilayered wood
12 flooring. As described by the witnesses these
13 products generated new demand and it cannot simply be
14 assumed that increases in subject imports came at the
15 expense of U.S. products. Now a second important
16 condition of competition is that the wood flooring
17 market has two distinct segments, the builder market
18 and the residential remodeling and replacement market.

19 The builder market as you've heard consists
20 of sales to large regional or national home building
21 companies such as Pulte and Lennar. Major U.S. wood
22 flooring producers have multiproduct relationships
23 with large U.S. builders and dominate this market. A
24 producer such as Shaw for example will supply a range
25 of products to a builder to address the entire floor

1 covering requirements for a major project. Demand in
2 this sector is directly correlated with new
3 residential construction. Subject imports do not have
4 a major presence in this market segment.

5 Now in contrast wood flooring for the
6 remodeling and replacement market is sold through
7 retail channels. These can include big box retailers
8 like Lowes and Home Depot or specialty retailers
9 ranging from Lumber Liquidators all the way down to
10 local shops. Imports are more focused on the retail
11 market and the leading retail chains have adapted
12 quickly to the increased importance of the remodeling
13 and replacement market.

14 So what does all this segmentation mean for
15 the Commission's analysis? Well first the data show
16 the two segments have experienced different demand
17 trends. One study for example notes that the builder
18 market has declined from 37 percent to the end use
19 market in 2002 to an estimated 24 percent in 2010.
20 The builder market has declined primarily because of
21 the dramatic drop in new construction that's reflected
22 in housing starts.

23 Annual housing starts plunged by 69 percent,
24 69 percent from 1.8 million units in 2006 to little
25 more than half a million units in 2009. In addition

1 there has also been a decline in average house sizes
2 which is therefore reducing the usage of flooring in
3 each house. Now the difference between the builder
4 and the remodeling replacement segments can also be
5 seen by comparing trends within the category of
6 overall residential construction.

7 We've handed out a chart which shows that
8 while total spending for residential construction fell
9 by 50 percent from 2007 to 2009, spending related to
10 residential improvements declined by far less, only 19
11 percent. So what happened here? Due to the
12 relatively stronger performance of the replacement
13 market these demand conditions have favored companies
14 that participate in that market, particularly
15 importers. Domestic producers who have higher
16 concentrations of their sales going to the new home
17 market suffered because of the extraordinary weakness
18 in the builder market that they dominate.

19 A third key condition of competition is the
20 increasing volume of materials that compete with
21 subject products. You've heard specifically about
22 bamboo flooring and laminates. Due to pricing and/or
23 product differentiation sales of both categories of
24 substitute products have increased and impacted sales
25 of multilayer flooring. I know Petitioners this

1 morning suggested that bamboo might be only 4 percent
2 of the market. For Lumber Liquidators, however, the
3 percentage is much more important and it may be as
4 much as 10 or more percent of their sales.

5 Laminates are also a growing market as we've
6 heard, and having an impact. In fact in its 332
7 report the Commission specifically identified the
8 increasing share of laminates as putting pricing
9 pressure on wood flooring. Fourth, the Commission has
10 already found that nonprice factors are significant.
11 In fact the 332 report shows that U.S. manufacturers
12 identified price as one of the least influential
13 factors with respect to wood flooring sales.

14 Petitioners may now claim that they are losing sales
15 due to price, but they certainly did not tell the same
16 story the last time they were before the Commission.

17 Price is not as important as now being
18 claimed by Petitioners because demand is driven by
19 choices made by the ultimate consumer, and Lumber
20 Liquidators's sales show that consumers are buying
21 based on quality and visual appearance. For example,
22 Lumber's sales of Chinese acacia and birch greatly
23 exceed its sales of American oak even though the oak
24 is lower priced.

25 We're not saying that price is not a factor,

1 obviously it always is when people are making purchase
2 decisions. But the Commission has already found that
3 price in this case or in this industry is outweighed
4 by nonprice factors such as quality, craftsmanship,
5 product consistency, and service. And those are the
6 findings from the 332 report. Now turning to the
7 issue of causation, we heard today about housing
8 starts and I think it's pretty clear that
9 macroeconomic trends, not imports, are the source of
10 the injury, any injury.

11 In the 332 report, for example, the
12 Commission concluded that the demand for residential
13 construction and renovation is the primary driver of
14 demand for wood flooring, and we have already seen
15 that the housing market collapsed during this period.
16 Now the direct linkage between industry performance
17 and housing is also confirmed by domestic producers.
18 For example in its 2009 annual report Berkshire
19 Hathaway, the parent of Shaw Industries, one of the
20 Petitioners, noted that Shaw's sales volumes and
21 earnings during the last two years have been
22 negatively impacted by the depressed residential
23 housing market and economic recession in the U.S.

24 Given this sharp more than 50 percent
25 decline in the housing market, it is clear that

1 domestic producers were injured directly to the drop
2 in demand for wood flooring. In the face of this
3 massive demand hit the role played by imports is
4 negligible. Finally, we believe that questionnaire
5 data also will show that imports are not causing
6 injury. I believe this was pointed out by one of the
7 questions this morning.

8 For example, in 2010 U.S. producers'
9 operating margins increased despite a significant rise
10 in subject imports. These trends again suggest that
11 domestic performance is not linked to imports. And
12 one final point following up on Petitioner's comments
13 regarding the performance in 2010 this morning, I
14 found it quite interesting that they link their
15 results this year to the impact of the home buying
16 credits. This confirms what we've been saying, is
17 that domestic results are driven by the housing market
18 and that the builder market is key for them. Thank
19 you.

20 MR. LUDWIKOWSKI: Thank you, Tom. That
21 concludes our portion of the panel. And I'll turn my
22 time over to Mr. Neeley and the rest of the
23 Respondents.

24 MS. DEFILIPPO: Thank you. Welcome, Mr.
25 Perry.

1 MR. PERRY: Thank you. My name is William
2 Perry from the law firm of Dorsey & Whitney. I am
3 here representing a number of the importers in the
4 case. I just want to thank the prior group because
5 they took a lot of the points I was trying to make.
6 But the key point was I think the domestic producers
7 missed the market. They missed an idea. Their
8 problem isn't China, it's an idea. The idea is that
9 instead of going to market which the domestic
10 Petitioners do, they bring out a set of products and
11 say, take it or leave it.

12 And that's not what's happening. What's
13 happening at the big box retailers will be people talk
14 to the buyers, the buyers in turn are being influenced
15 by the architects, the designers, and eventually the
16 consumers. And that's why we have multiple choices
17 now in the U.S. market and that's what's causing their
18 problem. It's also kind ofchutzpah to talk about
19 knock-offs when the Petitioners themselves have copied
20 products that have come from the importers and others,
21 of course it's just following a trend for them.

22 At this point in time I'd like to ask Clyde
23 Elbrecht -- oh, before I do that I'd just mention I
24 have three more witnesses, John Himes, of Brandywine
25 International, they will take questions, he used to

1 work at Mannington mill, Chris Phillips of DuChateau
2 BM Noble, they sell to the high end hospitality
3 market, Hilton and Ritz Carlton, I can tell you they
4 do no knock-offs, they have their own architects and
5 designers, and also Andy Holcomb of Intech Sourcing.
6 And now I'd like to ask Clyde Elbrecht of Real Wood
7 Floorings to speak.

8 MR. ELBRECHT: My name is Clyde Elbrecht. I
9 live in West Plains, Missouri, I have worked in the
10 flooring and the hardwood lumber industry for over 30
11 years. I am the owner and president of several
12 companies, Real Wood Floors, the Masters Craft
13 Corporation, the Tecton Corporation, and Missouri
14 Hardwood Flooring. My companies ship American
15 hardwood to China to be manufactured and shipped back
16 to the U.S., distribute hardwood flooring throughout
17 the Midwest, export lumber to China, and manufacture
18 hardwood flooring in the United States.

19 Our manufacturing model for engineered
20 flooring involves buying hardwood from over 30 to 40
21 family owned and operated mills in Missouri. Then
22 about 50 of our U.S. employees kill, dry, and prepare
23 the lumber to ship to China to make a thick saw-cut
24 veneer which is laminated to 9 ply Baltic birch
25 plywood and then machined into 1-foot to 7-foot

1 engineering flooring which is brought back to the
2 United States. Our product therefore has the
3 advantages of both solid and engineered floors.

4 This product is then distributed throughout
5 the U.S. through our own distribution outlets and
6 those of others. By the time the floor is installed
7 in an American home or commercial building more than
8 80 percent of the installed price remains in the
9 United States. For instance the installed cost of our
10 engineered hardwood floor is at least \$10 a square
11 foot. Of this \$10 at least \$8 goes into the U.S.
12 economy, to the landowner, to the logger, to the saw
13 mill worker, to the truck driver, to the sales people
14 and others in the distribution chain, not to mention
15 state, local, and Federal taxes. Less than \$2 remains
16 in China.

17 My colleagues from Mannington will be
18 pleased to know that beginning in 2009 my partners and
19 I invested more than \$5 million to buy and retool a
20 mill that was also built 100 years ago and which is
21 just 30 miles from where his grandfather built his
22 first mill. And his grandfather will be pleased to
23 know that as we speak we are hiring people and
24 bringing jobs back to the Ozarks. Because of quality
25 we often sell our engineered flooring at a price that

1 is higher than some of our U.S. competitors who may
2 have cloned our product.

3 In addition our cost of manufacturing this
4 product is more than our cost of manufacturing our
5 solid wood flooring in Missouri. Several months ago I
6 received the largest order I have ever taken for Red
7 Oak to be made into flooring for the Chinese domestic
8 market, which is growing as the Chinese middle class
9 grows, because American hardwoods are the preferred
10 species of the growing middle class in China. My
11 vision for the future is to eventually move the
12 manufacturing of the saw-cut veneer layer back to my
13 plant in Missouri, thus increasing capacity and
14 creating more jobs in an impoverished area in which
15 the mill is the community economic lifeline.

16 If my product is not viewed as a unique
17 product, I believe the imposition of tariffs and the
18 likely reprisal by the Chinese will jeopardize my
19 business and the American hardwood industry. On
20 Monday I am going to Vietnam. I do not want to go to
21 Vietnam, I do not want to have to go through the
22 process of teaching someone else how to make my
23 product, but I have an obligation to my U.S.
24 employees.

25 MR. PERRY: Kevin Bowen of Custom Surface.

1 MR. BOWEN: My name is Kevin Bowen, I'm
2 President of BR Custom Surface out of Louisiana.
3 We've been in the flooring business for nine years
4 primarily servicing the do-it-yourself or the buy-it-
5 yourself markets. These are typically cash and carry
6 or the bigger big box retailers. We provide a wide
7 array of hard surface flooring products. Our products
8 include laminates, ceramic, engineered hardwoods, and
9 solid hardwoods.

10 All of these products have features,
11 benefits, and prices that overlap. Accordingly
12 there's no simple answer to your question in the
13 questionnaire regarding pricing. For example we offer
14 solid hardwoods, which are typically the most
15 expensive product within the category, at prices less
16 than some laminate floors. We also offer some
17 laminate products that are more expensive than some
18 engineered floors. There's just no one-size-fits-all
19 price for any of these products.

20 The consumer always dictates product price
21 which drives product specification. Thus the retail
22 buyers have to constantly be working to innovate and
23 develop new products for their shelves that are at
24 competitive pricings in order to stay in business.
25 Traditionally our customers were at the mercy of a

1 small number of large domestic manufacturers that
2 controlled the U.S. market. However, these mass
3 producers were typically inflexible with product
4 selection and their prices.

5 They offered the same stagnant products at
6 rigid prices to retailers across the country
7 regardless of their specific needs of their individual
8 retailers. This inflexibility of the mass producers
9 actually has driven the larger retail buyers to seek
10 more control over the products they put on their
11 shelves as taste and market trends change.
12 Accordingly these retailers began sourcing products
13 through independent channels for production and new
14 product development.

15 These independent channels have allowed
16 retailers to develop new products to quickly react to
17 changing market conditions. They have more control
18 over their product offerings and their price points.
19 This has become vital for large retailers should they
20 want to stay in business. For example prior to the
21 recent market shift from the new housing construction
22 to a remodeling or a replacement market, we were able
23 to closely work with our clients to help develop new
24 products to meet the projected change in market
25 trends, thus giving them a competitive advantage when

1 the market actually shifted.

2 Contrary to what the Petitioners would like
3 you to believe, Chinese production costs have steadily
4 risen over the years. This increase in cost is
5 predicated on traditional economic market drivers.
6 The strengthening of the Chinese currency is
7 undisputed. The domestic flooring market in China is
8 exploding, nobody disputes that. The labor rates in
9 China have gone up, everybody agrees. Raw material
10 price in China have increased.

11 Sourcing adhesives and finishes out of
12 Germany the prices have gone up. Raw material coming
13 out of the United States, the wood that Clyde ships
14 over there has gone up in price, Americans are
15 charging more for their products. Ocean freight's
16 gone up. None of this is disputed. The prices in
17 China have gone up and they will continue to go up for
18 the foreseeable future. I don't think anybody
19 disputes that, they're not going down, things aren't
20 getting cheaper in Asia.

21 The shift in options available to retail
22 buyers the last ten years have driven innovative
23 product design and reduced the overall retail pricing.
24 Today retail buyers have many options when it comes to
25 purchasing flooring for themselves. Further, our

1 clients are not limited to domestic producers. In
2 addition to exotic woods not available in the U.S. the
3 quality of production in other countries such as China
4 have matched or exceeded the quality of production in
5 the U.S.

6 Given the new global paradigm our clients
7 now dictate products they offer and the price points
8 at which they sell their products to consumers.
9 Whether the Commission finds injury to the domestic
10 industry and imposed duties on Chinese imports or not,
11 the price points and the products demanded by our
12 clients and the U.S. consumers are not going to
13 change. The price points with respect to my clients
14 are fixed for the foreseeable future, at least until
15 the economic condition in our country improves. And
16 our clients will continue to seek products not offered
17 by the domestic producers.

18 Accordingly, we would find alternate sources
19 for our products such as Indonesia and Malaysia,
20 Vietnam, Brazil, et cetera, that would still meet the
21 price points and product demands of our clients and
22 the U.S. consumers. In fact as a direct result of
23 this petition my team and I intend on being on a plane
24 the day after Thanksgiving this year going to
25 Indonesia to begin sourcing.

1 You know, this morning we heard a lot about
2 cloning. Shaw testified that they've introduced a new
3 HDF core product this year that's done very well for
4 them. They also testified that they feel they must
5 hurry up because their window of opportunity to make
6 money is very small because the Chinese importers are
7 going to begin knocking off our product. I'd like the
8 Commission to know that last year, last year we began
9 marketing and selling an HDF core product. And we do
10 agree with Shaw, it's done very well for us.

11 And since Shaw and our company have been
12 successful with an HDF core product, if Mannington
13 comes out in January of 2011 with an HDF core product,
14 is Mannington knocking us off or are they simply
15 providing a competitive product for their customer
16 base that's demanding a new product? I appreciate
17 your time and patience today and certainly look
18 forward to answering any of your questions.

19 MR. TRAIN: My name is Jonathan Train, and I
20 am Vice President of Swift Train Company, a flooring
21 distributor based out of Texas. We are a family
22 business of over 70 years and sell both domestic and
23 imported hardwood flooring products, as well as a full
24 range of other flooring categories. Our customers are
25 over 2,000 small to medium sized independent floor

1 stores.

2 We entered the hardwood business in the
3 early '90s, but we started buying from the Chinese
4 because our existing U.S. suppliers had issues.
5 Through consolidation they eliminated dedicated sales
6 and marketing personnel for the brands we represented,
7 they closed factories, we could not get consistent
8 supply. They started to sell our exact same product
9 under a new brand to our competitors. One supplier
10 even breached our contract with them and pulled the
11 line from us without notice.

12 So contrary to what this coalition wants you
13 to believe, the reason we sought out imports was
14 everything but price. The key to any business success
15 is to be different and hopefully better than the
16 competitors. We differentiated ourselves by giving
17 the small retailer and their consumer more choice in
18 fashion, style, product design, and function.
19 Consumers want items in their home that add value and
20 are truly unique. Our mix of products help provide
21 what the small retailer needs to survive.

22 To prove this case, ten years ago we needed
23 6 series to reach \$10 million in sales. Today we need
24 22. Ten years ago we sold less than 100 items in
25 wood, now we have over 400. These new products are

1 not your grandmother's oak floor. They can be hand
2 stained, exotic species, hefty top veneers, or hand
3 crafted. But whatever the consumer chooses it meets
4 their individual needs.

5 Besides choice we offer flexibility and
6 consistency to the independent flooring retailer. For
7 samples instead of making a one-size-fits-all approach
8 like the large domestic manufacturer does, we can
9 customize marketing tools quickly and easily. It
10 allows the dealer to pick and choose the product that
11 makes sense for their particular showroom. It also
12 allows us to change out the product mix based on
13 market trends and factory capabilities.

14 This brings us to substitutes. The
15 Petitioners would have you believe that engineered
16 wood flooring is a separate market and this industry
17 is just limited to the producers of engineered wood
18 flooring. In fact this industry is much wider because
19 numerous products compete directly with wood flooring.
20 Engineered wood flooring is the middle segment between
21 solid hardwood flooring on the high side and laminate
22 and luxury vinyl on the low side. But there are no
23 clear dividing lines based on price, characteristics,
24 and uses.

25 In fact consumers look at these products as

1 one category that gives them a natural wood decor in
2 their homes. Moreover the prices are overlapping.
3 The gap between wood flooring and substitute products
4 was huge ten years ago. Today the gap is much
5 smaller. Laminate flooring, luxury vinyl, ceramic
6 have developed technology that provides tremendous
7 realism. Not to mention they offer product features
8 and benefits wood flooring does not.

9 Mannington is very proud of their wood
10 design in laminate and luxury vinyl. Here's an
11 example. And we have an example for you all to look
12 at too. And it says on the back of this, it says
13 "Which wood product would you choose? With today's
14 technology your customers have more choice than ever
15 before." The look and feel of real wood is now
16 available in Mannington hardwood, Revolution's
17 laminate plank, and Adura luxury vinyl plank floors.
18 You tell me which is which.

19 The average consumer is trying to find a
20 wood look, and is not always concerned about that it
21 is actually made of wood. The average consumer
22 looking at this sample would not know the difference
23 between the types of floors. They would need to touch
24 and feel the sample to realize the difference. Shaw
25 is one of the biggest suppliers of laminate flooring

1 as well. They also just announced that they are
2 entering into the LBP business just a month or two
3 ago, maybe more, I can't remember.

4 If you ask anyone in the industry laminate
5 and luxury vinyl are areas of great opportunity. It
6 appears that one of the biggest competitors to this
7 coalition's hardwood business is their own laminate
8 and luxury vinyl products as well as the other
9 substitute products. Substitute products are huge.
10 The Petitioners think the only stuff a consumer wants
11 is their design. That is far from the truth. Why
12 else would they be importing so many items themselves?
13 It is not just low price items either. Mannington
14 introduced Earthly Elements, according to their
15 website a revolutionary type of floor, made in China.
16 Thank you very much for your time.

17 MR. HAMAR: My name is Jeff Hamar. I am
18 President of the Gallagher Corporation, the largest
19 wood flooring distributor in California, Arizona, and
20 Nevada. Like the Petitioners we too have been injured
21 in the housing crisis which overwhelmed our industry.
22 In 2004 our company sold \$35 million worth of
23 prefinished wood flooring. In 2009 our sales dropped
24 to \$12 million, a 65 percent decline.

25 From the early 1990s until the mid 2000s we

1 were Mannington's largest wood flooring distributor.
2 During this period we warned Mannington that to be
3 competitive they had to adjust to new market realities
4 such as focusing more on overall value and products
5 consumers want rather than investing in brands,
6 expensive marketing, and unique styling that won
7 awards but didn't create market demand. Mannington
8 missed the shift in products and changes in consumer
9 buying desires.

10 For instance Gallagher had a customer with a
11 flooring showroom and a robust Internet site. In 2006
12 they purchased nearly \$1 million in Mannington
13 products, and we were told to stop selling to that
14 customer because they did not fit into Mannington's
15 model of doing business. Fifteen years ago a few U.S.
16 flooring manufacturers sold to a limited number of
17 distributors on an exclusive or dual distribution
18 arrangement, who then sold to over 15,000 independent
19 flooring retailers.

20 The emergence of Home Depot, Lowes, Lumber
21 Liquidators, the Internet, and retailers like Flooring
22 Decor opened new channels for consumers. The
23 Petitioners refused to sell to these new entities in
24 an effort to protect an old model. At the same time
25 consumers began to demand looks and species that were

1 not produced in the United States. They also rejected
2 the lower quality standards and the excessive prices
3 of U.S. producers.

4 To respond to these new competitors many
5 better independent flooring retailers joined retail
6 buying groups who over time actively decreased the
7 role and visibility of U.S. suppliers and sought to
8 eliminate manufacturer brands completely from their
9 stores and to create their store and buying group as
10 the brand the consumer recognized. As in many
11 industries brands became less important in buying
12 decisions. Consumers began to consider the entire
13 value proposition, product quality, style and color,
14 warranty, and finally price.

15 Wood flooring like virtually all installed
16 building parts is easily comparable to similar
17 products from other manufacturers, and as a result the
18 importance of the manufacturer and their brand has
19 become almost inconsequential. As the globalization
20 of the flooring business became evident in the early
21 part of this decade when more than 15 countries began
22 shipping flooring to North America, U.S. manufacturers
23 responded in a variety of inconsistent and ineffective
24 ways.

25 The surging new home construction market

1 between 2002 and 2006 when permits peaked at 2.1
2 million allowed U.S. suppliers to postpone important
3 decisions. American manufacturers tended to emphasize
4 residential replacement business particularly when the
5 demand was from do-it-yourself or buy-it-yourself
6 customers. With new home starts below 500,000 the
7 market today is largely replacement and the
8 Petitioners don't have significant market share in
9 that segment.

10 Many domestic flooring manufacturers were
11 very slow to respond to consumer demand for new looks
12 in wood flooring. Fifteen years ago there were only a
13 couple of wood species available in the United States.
14 Today more than 20 species from around the world are
15 used in flooring, yet U.S. manufacturers produce only
16 a few of those species in the U.S. As American
17 species like walnut, cherry, and hickory became
18 popular, U.S. manufacturers responded slowly and
19 priced these products at the very high end of their
20 product range.

21 My company introduced the first prefinished
22 hand scraped flooring on an engineered multi-ply base
23 15 years ago. We talked to management about the need
24 to introduce this product, and the eventual response
25 was a product that they bought from another

1 manufacturer from a factory in Mexico. Anderson
2 cloned our products and our idea, our looks, our
3 styles, and our colors, and did the scraping using
4 prison labor in South Carolina. These products have
5 grown significantly in recent years.

6 We continued to make the product profitably
7 until 2007 when our new company, our temporary owners
8 ended production. Provisional flooring models has
9 also changed when a decade ago when Shaw and Mohawk,
10 the two largest carpet manufacturers, entered the
11 wood, ceramic tile, and laminate flooring segments.
12 Their much more efficient business model put
13 additional pressures on traditional partnerships
14 between standalone manufacturers and independent
15 distributors selling to a very fragmented retail floor
16 cutting industry.

17 Shaw, Mohawk, and then Armstrong drove much
18 of the wood flooring manufacturing consolidation in
19 recent years. The role of the independent
20 manufacturers limited distributor options and forced a
21 reevaluation of many relationships. The impact was
22 reduced network within the supply chains and reduced
23 sales by consolidating suppliers. The demand for wood
24 flooring was not diminished by the consolidations
25 while alternative channels and suppliers filled the

1 void. The financial crisis and housing crash
2 prevented new capacity from being established in North
3 America in recent years.

4 Some other points on Anderson and
5 Mannington. In 2007 Anderson was purchased by Shaw.
6 This was well after the new home sales began to
7 decline significantly and the globalization of
8 hardwood flooring was a reality. Anderson's strong
9 distribution network was not universally interested in
10 helping this new entity because Shaw was a major
11 competitor to most of Anderson's customers and
12 distributors. Mannington likewise has had challenges
13 in distributor disruption and capabilities, impacted
14 results in concern among many distributors about
15 Mannington's long term strategy drove many to diminish
16 emphasis on Mannington products as well.

17 In conclusion the losses affecting the
18 Petitioners are driven by the precipitous decline in
19 new home construction where these companies were
20 heavily focused, the rise in consumer demand to
21 purchase flooring from a channel designed to support
22 DIY activity, major shifts away from U.S. species to
23 wood species from around the globe which U.S.
24 manufacturers would not produce, distribution networks
25 that weakened in recent years, changes in the value

1 properties of consumers, and diminished brand
2 importance and business decisions made over a number
3 of years that have proven to be incorrect and short
4 sighted. Thank you very much.

5 MS. DEFILIPPO: Thank you, Mr. Perry. And,
6 Mr. Neeley, you're up.

7 MR. NEELEY: Okay, thanks. I'm Jeff Neeley
8 from the law firm of Barnes, Richardson, & Coleburn.
9 I'm here today with my colleague Steve Brophy. We're
10 here today on behalf of the China National Forest
11 Products Industry Association, and I want to at the
12 outset apologize that I didn't get anybody here from
13 the Association for this conference. The staff may
14 recall that the Association made really extraordinary
15 efforts to participate in the section 332 case, came
16 here, testified, which I think may be the first time
17 this ever happened with a Chinese company or
18 association. Unfortunately the visa issues of getting
19 the visa this quickly were a problem for them to get
20 here in time today so I will have to do the best that
21 I can.

22 There's a couple things I want to talk about
23 today. The first thing is really incomplete data. I
24 think everybody has kind of struggled with that today
25 including some acknowledgments by the domestic

1 industry about that. First of all I think Mr. Levin
2 graciously, you know, acknowledged that we at the
3 Association and the Chinese industry have actually
4 done a really good job in getting the pretty complete
5 data at this point. We filed a bunch of
6 questionnaires, you've seen them. I think it accounts
7 for the overwhelming majority of Chinese exports to
8 the United States.

9 You know, what it doesn't probably account
10 for, and I'll talk about this in a few minutes, is
11 there are other Chinese producers out there that
12 primarily concentrate on the home market, largely for
13 quality problems, they can't really sell any place
14 abroad. I'll get back to that in a moment. But the
15 reality is I think what you've got is a pretty good
16 representation of at least the exporters to the United
17 States, which is not something you always have in a
18 preliminary.

19 Incomplete data, on the other hand, really
20 is falling on a couple of, well primarily place, which
21 is the U.S. industry. We've got really poor showing
22 from what we've seen to date from what the U.S.
23 industry has put into the Commission. Really major
24 companies, major segments of the industry have not put
25 in data. I think that's telling, I mean I think it

1 tells us even if they do chuck in the data at the last
2 minute that these folks aren't terribly interested in
3 this case, and they're not terribly interested in or
4 think that there is injury to the U.S. industry.

5 I think that this is important for the
6 Commission to take into account. I think there is a
7 lot, whether there's standing or not technically there
8 seems to be a lack of concern by a large segment of
9 the U.S. industry as to the supposed injury from
10 China. Secondly, I'd like to go back, I've
11 distributed to the staff and also sent around some
12 copies around the table for others to look at, our own
13 volume calculations.

14 And I want to emphasize the purpose of this,
15 I'm not trying to indicate that our numbers are the
16 ones that the Commission should use for the purpose of
17 assessing injury in this case. On the contrary I
18 think our numbers are, you know, pretty overstated in
19 terms of the amount of imports that are coming in, so
20 I'm not suggesting that. But what we tried to do is
21 something different, what we did is we took sort of
22 the approach that the domestic industry took in the
23 petition using the Catalina report and then we put it
24 against what the Commission, we tried to replicate
25 what the Commission did in the 332 report, and kind of

1 put the two side by side.

2 And what we see is, neither of which I think
3 are right by the way, but what we see is the
4 Commission's approach gives you totally different
5 trends. And I think that's important because it shows
6 something about the quality of the Catalina report. I
7 think the Commission in the section 332 went to great
8 lengths to try to come up with good figures for that
9 section 332 report, and now we see this Catalina
10 report coming in, we see Mr. Levin admitting that he
11 doesn't really have a clue as to how they came up with
12 their methodology, nobody seems to have a clue as to
13 how they came up with their methodology.

14 And I want to go through this really briefly
15 because it seems to me that what it proves
16 fundamentally is we ought not to be using the Catalina
17 report, it's not worth a whole lot to us. I mean we
18 don't know what they did and it seems to fly in the
19 face of what the Commission itself did in the section
20 332 report. If you go to the first page after the
21 sort of introductory page of our slide show, and I
22 apologize again we kind of messed up here in terms of
23 we were going to put it on the slide show but it
24 didn't quite work.

25 But what we talk about is classification of

1 wood flooring. Wood flooring historically as we all
2 know was classified as hardwood plywood, and then we
3 had new subheadings being added over time in 2007,
4 2008, 2009. What we need to avoid, and I think the
5 Catalina report failed in this regard, is to use time
6 series data that only uses the newly created
7 subheadings and not hardwood plywood subheadings, and
8 so we skew the earlier years. And we think that's
9 what's been going on here with the Catalina report.

10 The ITC staff, you know, in the 332 faced
11 this same problem. And so what we tried to do is to
12 go back to what the staff did originally and sort of
13 recreate it. We tried to replicate it, and this is on
14 the page called "Replication of ITC import data" for
15 hardwood, plywood, and wood flooring, based on the
16 subheading information that the Commission provided in
17 Table 3.3 of the section 332 report.

18 We excluded several of the plywood
19 subheadings that seemed clearly didn't apply to this
20 case including the coniferous wood and bamboo, as well
21 as the subheading for siding, moldings, et cetera,
22 none of which would have been used for the
23 classification of flooring. Then we show on the next
24 page of our report what we call U.S. imports of
25 hardwood, plywood, and wood flooring from China, and

1 we do a side by side of our own sort of updated
2 methodologies and what we thought was what the
3 Commission did against, you know, what we did.

4 And we come pretty close. I mean we don't
5 hit it exactly but we come pretty close. So we think
6 we've come pretty close to replicating what the
7 Commission tried to do back in the days of the 332
8 report.

9 MR. NEELEY: And what's interesting here to
10 us is, you know, what happens with the trend. When we
11 expand the data through 2010 and try to use that
12 approach what we see is what we show on what we call
13 "U.S. Imports of Hardwood, Plywood, and Wood Flooring
14 from China". We show the data trends here combined,
15 and what we show is a drop then of volumes of 51
16 percent between 2006 and 2009 and a 43 percent drop
17 between 2007 and 2009, using that approach that the
18 Commission used.

19 Now in reality that may not be I will admit
20 exactly right. But what we think we do see and what
21 we will see is not this huge increase from 2007 to
22 2009 that seems to be indicated by the Catalina
23 report. We think there's no reason to think that that
24 was what was happening based on importer data, based
25 on questionnaire data from our clients, and based on

1 any other sources. So what we see instead is that the
2 Chinese we believe went down in the market in 2009 as
3 the market declined, went down to levels that were
4 significantly below 2008.

5 But what's most important, and I think
6 everybody agrees on this, and I'll kind of turn to the
7 side, I mean I'll let you take a look at this at your
8 leisure because in some ways I don't want to focus too
9 much on it but I do think it's useful to sort of try
10 to replicate your earlier approach, but what we all
11 agree on, and I think this is the most significant
12 conclusion we come to, is that in the period we ought
13 to be looking at which is in 2010, which is present
14 injury in January through September of 2010, I think
15 we all sort of agree that there's been an upsurge of
16 Chinese imports from the same period in 2009.

17 But what's fascinating and what I think the
18 domestic industry realizes and has tried to avoid like
19 the plague is that there is no consequent showing of
20 causation to the injury to the U.S. industry. In fact
21 what we think will be shown and what seems to be shown
22 so far is that profitability is up, that they're doing
23 better in almost every way in 2010 compared to 2009.
24 So where's the causation? What, you know, if China is
25 the problem and we had a big impact you should see

1 some sort of causation, you should see some sort of
2 effect, and we're not seeing it.

3 And why aren't we seeing it? It's because
4 of what all these guys told you today, because they're
5 in different segments of the market. I mean we think
6 that is the explanation as to why you've seen what
7 doesn't really as they say smell right. There's
8 something wrong with this picture, okay, and we think
9 that the Commission ought to focus heavily on that
10 lack of causation because we see it, we see this story
11 just not holding up, and frankly the tax credits story
12 doesn't help them.

13 The tax credits story in fact, I don't
14 understand why they keep telling this story because it
15 seems to me it goes in the opposite direction. The
16 tax credits story seems to be saying that, yeah it's
17 all about new housing starts. Yeah, we agree. You
18 know, that may be the reason for the uptick but it
19 doesn't really solve their causation problem at all,
20 in fact we think it makes their causation problem much
21 worse. I want to address a couple other questions.
22 I've got one minute? All right, well I'll do it real
23 fast then and hope that you ask me about the Chinese
24 industry and the Chinese home market because that's
25 what, because those are things I got prepared, all

1 right.

2 I'd just say one other thing, that cloning,
3 it's a red herring, I think we all know it's a red
4 herring, there's no IP violations. It really doesn't
5 go to the issue of interchangeability at all. I'll
6 address that in detail if you'd like. But if they're
7 going into different market niches the fact that
8 people are copying styles just like they do in the
9 automobile industry, just like they do in the, you
10 know, the fashion industry or any other industry,
11 really doesn't go anywhere except as a way to sort of
12 pound on the table by the U.S. industry. Thanks, I
13 probably used my minute.

14 MS. DEFILIPPO: Thank you, Mr. Neeley. Do
15 you have anything to add in those four seconds? Thank
16 you to all of you for being here. And we will start
17 with some staff questions and I will start with Mr.
18 Ruggles.

19 MR. RUGGLES: Thank you, gentlemen. Yeah,
20 actually, Jeff, I'm going to probably hit you pretty
21 hard on this first and let everybody else go to the
22 others. First, let's talk about imports, okay?

23 MR. NEELEY: Yeah.

24 MR. RUGGLES: You don't like the Catalina.
25 Can you come up with something a little better for the

1 same period? If so could you submit it?

2 MR. NEELEY: Well at the moment, I mean
3 we're going to look at what is on the record obviously
4 at the time we file our brief. But at the moment I
5 think you do have questionnaire data, I mean at the
6 moment I don't see anything better. We'll certainly
7 continue to look for it. But, you know, I think
8 questionnaire data, no matter what the use frankly
9 it's going to, they're going to have a causation
10 problem, but questionnaire data seems to be the best
11 at the moment.

12 MR. RUGGLES: Okay.

13 MR. NEELEY: Bill?

14 MS. DEFILIPPO: Microphone please. And
15 since there are, it is a large panel, if you could
16 identify yourself I think it would help the Court
17 Reporter. Thank you.

18 MR. TRAIN: I'm Jonathan Train with Swift
19 Train Company. I would agree with what the
20 Petitioners stated in terms of the HTC codes are
21 really probably your most accurate information. And
22 in terms of the report the Catalina research report,
23 if I'm not mistaken the way they achieve that is they
24 go through, they send out report to all the retailers
25 throughout the country and whoever answers answers.

1 And so typically it's representing the larger players
2 that have the staff to do it.

3 But as far as the imports and I think the
4 time line is real critical because of these new
5 introductions of HTC codes and as far as the
6 implication that people are cheating on the HTC codes
7 and reporting different things, does that exist?
8 Sure, probably. People evade taxes too. They
9 shouldn't be evading customs duties either but I don't
10 think it's by and large what we're dealing with.

11 MR. RUGGLES: Thank you. As you can imagine
12 it's going to be an important part of our report that
13 we put forward, okay? With that also the foreign
14 producers, we used, supplied what, 27 or so I believe
15 it is at this point, checked that against what the
16 Petitioners put out for what they're claiming on their
17 handout, okay, make sure we have all those if you can.

18 MR. NEELEY: We'll address that.

19 MR. RUGGLES: All right. And then if you
20 could maybe what you've given us, tell us what you
21 believe to be the amount that it supplies for the
22 entire universe in China, in other words what you show
23 as 27, are they 50 percent of the production in China,
24 are they 75 percent, are they 40 percent, et cetera.

25 MR. NEELEY: Well one thing I'd say, and we

1 can give it to you both ways, but I think the Chinese
2 companies are somewhat specialized in where they sell.
3 You know, there are some that are specialized to a
4 large extent in the export market, I mean not
5 exclusively because certainly they sell in the home
6 market as you can see from our questionnaire
7 responses.

8 But those higher quality companies that are
9 sort of one segment, there's other companies out
10 there, and I think some of those are on the list that
11 we got this morning from Petitioners, that are pretty
12 much focused on either for quality reasons or simply
13 because they decided that the Chinese home market is a
14 pretty attractive place, which it is, are focused on
15 the home market and don't do much in terms of exports
16 and there's no indication that they would do that. So
17 I'll try to address it both ways but I mean I think
18 you have to look at a bit of the segmentation in the
19 Chinese market as well.

20 MR. PERRY: Fred, one thing that's clear is
21 that contrary to indications by the Petitioners the
22 Chinese market is booming. They came out of the
23 recession sooner than we did, so their new home starts
24 are going up, their apartments are going up. My in-
25 laws in Beijing redid their apartment in wood. It's

1 happening all over the country, and so you have a
2 market that is much larger than the United States. So
3 I think Jonathan mentioned he knows of companies that
4 literally have stopped exporting and gone everything
5 into the domestic market. So there's a huge movement
6 there, that's why you're not, you're hearing all these
7 numbers of companies but they're selling into this
8 huge domestic market in China. Jonathan?

9 MR. TRAIN: In fact the list on that Exhibit
10 8 from their economist, and they listed everything on
11 there, a few of those companies, they do more domestic
12 product than they do exports. And I think that I can
13 speak for all of us in our group and probably you guys
14 too, a lot of times when we go to these factories
15 what's sitting around in their warehouses aren't stuff
16 waiting to go in a container to go over the Pacific, a
17 lot of it's sitting there to be sold in their own
18 market and I know that because I can't read what's on
19 the box.

20 MR. RUGGLES: Okay, one of the things that
21 we do have here at the Commission we've been asked
22 about the unused capacity and domestic sales. So
23 maybe if you can get a breakout of how much is coming
24 here, how much is staying there, et cetera.

25 MR. NEELEY: Yeah, we'll do that. I mean

1 one of the challenges always, and I think what Bill
2 and his group said is absolutely correct, I mean in
3 fact you don't even have to believe them, you can look
4 at your own report on 332 where the Commission said
5 that China is the world's largest market for wood
6 flooring, I mean it's huge. One of the challenges is
7 to get any participation even on the part of the
8 Association from folks who only care about the
9 domestic market. Okay, now we'll try to get you some
10 harder data on that side of it as well but you may not
11 get the same response.

12 MR. RUGGLES: That's fine, I mean maybe the
13 Association itself can come up with their own figures
14 that they feel that they have, I mean that's, you
15 know, similar to what we, you know, the Plywood
16 Association here does.

17 MR. NEELEY: Sure.

18 MR. RUGGLES: So if you could please.

19 MR. NEELEY: Thanks.

20 MR. RUGGLES: All right, and I do, you have
21 provided a lot of information, there is a lot there,
22 but if you could just flesh it out a little bit more.

23 MR. NEELEY: We'll work on that.

24 MR. RUGGLES: All right. That's all I have
25 right now.

1 MS. DEFILIPPO: Thank you, Mr. Ruggles. I
2 will now turn to Mr. Fetzner, our economist.

3 MR. FETZNER: Thanks, and I would like to
4 thank the panel for coming this afternoon for your
5 testimony and for enduring our questions which as you
6 saw this morning might go on for a while. But one
7 thing I wanted to do is follow up on the Chinese home
8 market discussion here that Fred started, so I'm kind
9 of giving Mr. Neeley his wish. I heard a few things
10 in the panel that I just want to reconcile, and I've
11 heard, okay the market's booming and even some folks,
12 you know, are looking to export to the Chinese market,
13 but also I think, Mr. Neeley, you said something about
14 some producers only supplying the Chinese market
15 because of their low quality, which kind of in my mind
16 at least goes against that. So is it, is there
17 different types of segments in the Chinese market that
18 different suppliers are servicing maybe a higher end
19 or a lower end, or can you?

20 MR. NEELEY: Absolutely, I mean, yeah, I
21 mean there is high quality and increasingly high
22 quality sales inside China. I mean it's certainly in
23 the larger cities, in Shang Hai, Guangzhou, Beijing, I
24 mean you see new apartments with very high quality
25 wood flooring in it. So you can survive quite well by

1 simply serving that market which is the high quality
2 market.

3 In some of the more provincial areas, you
4 know, on the outskirts of China, quality may be not as
5 important and that's sort of what I was referring to.
6 I don't think there's any contradiction between what I
7 was saying, I mean I think there are different
8 segments, there's certainly the high quality market,
9 it's a huge country obviously and lots of high quality
10 stuff that's going on there, but there's also low
11 quality product that probably couldn't be sold in most
12 export markets whether to U.S. or elsewhere.

13 MR. FETZER: And do you think -- I'm sorry,
14 go ahead, Mr.?

15 MR. ELBRECHT: I think you can see in
16 apartments in China entry level floors. The factory
17 rework there was initially made floors exported in the
18 United States, since then they've opened up about four
19 of their own retail stores. Just a couple weeks ago I
20 was in a mall that I looked like I was in Charlotte,
21 North Carolina, just this gorgeous mall with beautiful
22 floors, and in those, particularly in those upscale
23 floors they love American woods, they love American
24 red oak, American walnut, American hickory. Those are
25 indigenous only to the United States, and the status

1 symbol for a high quality floor in China is an
2 American floor.

3 MR. FETZER: Okay, thanks, I appreciate
4 that. Would you say that the sort of higher end
5 market in China, is it mostly served by imports to
6 China or is it, you know, product produced in China?

7 MR. PERRY: Jim, I would just add I think
8 it's being served probably mostly by Chinese but using
9 imported wood from the United States, and that's the
10 point.

11 MR. FETZER: Okay.

12 MR. PERRY: And that was the point Clyde
13 made in his testimony.

14 MR. NEELEY: I think that's true, but it's
15 also true that companies like Mannington and others
16 have been active in trying to get involved in the
17 Chinese market whether it's through branding or joint
18 ventures or to some extent exporting there, but yeah I
19 mean it's primarily I think going to be domestically
20 produced.

21 MR. FETZER: Okay, thanks.

22 MR. TRAIN: Something else on the Chinese
23 market is, you know, the companies that can do well
24 for export do well with export but the Chinese market
25 is very different. One, they like the brand and the

1 status symbol of a brand, also what a factory is able
2 to do in China, they like fixed widths. The other
3 thing is you don't wear shoes in your house in China,
4 finishes aren't as important, you don't scratch up
5 floors. They like higher gloss, they like, you know,
6 different designs. So you have a lot of factories
7 that really cater to that overall desire there and I
8 think to answer your question from before, I think the
9 quality is, I think there's a lot of excellent quality
10 coming out of China and also I think that the designs
11 are just geared for their market.

12 MR. FETZER: Okay, thanks, I really
13 appreciate that. Moving kind of in on to the lumber
14 issue or the log issue, and there was a lot of talk
15 about, you know, U.S. lumber prices going up because
16 of demand in China, but there was also a comment
17 earlier that U.S. producers are limited in that they
18 don't have access to different species that the
19 Chinese producers have, I believe some kind of Asian
20 oak or something along those lines. So I'm wondering
21 is there a reason why U.S. producers don't have access
22 to that, is it just that they haven't gone after it,
23 are there export restraints or other issues that
24 prevent them from using those? Like because the
25 Chinese producers are using U.S., you know, U.S.

1 hardwoods.

2 MR. NEELEY: We can look into that. I'm not
3 aware of why they would be not have access, but I'll
4 ask.

5 MR. BOWEN: It's basically a price issue,
6 right? So again the Chinese know to be able to sell
7 into America they need to import American wood, and to
8 be able to fill their domestic needs. I would say the
9 American manufacturers as you heard today didn't want
10 to respond to your question about that, do you import,
11 jurtoaba, do you import, you know, murbo and stuff in
12 to the United States and why can't you do that and
13 make it here?

14 And they just don't want to do it, I don't
15 think they want to bring the raw material in to make
16 the engineered product as the Asian market, the
17 Chinese market says, hey we'll buy American products,
18 we'll engineer them, and we'll sell them back to you.
19 So there's nothing stopping the domestic manufacturers
20 that I'm aware of from buying raw materials from
21 abroad, I mean other than they just don't want to do
22 it, they're not meeting the market demands. The
23 market obviously demands different species and
24 choices, but they've again indicative of their
25 attitudes the last ten years, they've chosen not to

1 give the market what it wants.

2 MR. FETZER: Any other thoughts on that?

3 (No response.)

4 MR. FETZER: Okay, thanks. I wanted to sort
5 of get back to this replacement market versus building
6 market. So I think generally what I heard from the
7 panel this afternoon was that the U.S. producers are
8 focused more on the builder market and the Chinese
9 imports are focused more on the replacement market,
10 although I think Mr. Hamar said something about the
11 U.S. moving out of the replacement market around 2006
12 or so I think when the building market was, when I
13 guess was increasing.

14 MR. PERRY: One thing I'd like to add, it's
15 not that the Chinese imports are focused on the
16 replacement market. It's the do-it-yourself guys, the
17 Lumber Liquidators, they're focused on the replacement
18 market. This isn't a push from China, it's a
19 situation where the do-it-yourself companies, the Home
20 Depots, the Lumber Liquidators, the Lowes, they're
21 moving into the replacement market.

22 The demand is coming from the consumer, and
23 that's the difference here. I think that's a huge
24 problem because you're sitting here saying, oh the
25 Chinese are targeting. They're not targeting, what's

1 happening is you have two different sets of importers
2 in effect. They're importing too but they're catering
3 to the new home market, this group is catering to the
4 replacement market where they don't want to go.

5 MR. BOWEN: Do you understand that the
6 reason that an engineered product or a laminate
7 product or an LVT product worked for remodeling or
8 replacement? Typically solid wood is three quarters
9 of an inch thick. So if I'm going to remodel my house
10 and I want to put wood down in my house and I put a
11 three quarter inch wood on my floor I typically am
12 going to have to cut my doors down to be able to fit
13 that floor underneath my door. By putting a thinner
14 engineered hardwood product down, I get the real look
15 and value of real hardwood without having to cut my
16 doors and it's a much easier do-it-yourself
17 replacement.

18 So when we started seeing the decline coming
19 in the housing market we went to our clients and said,
20 hey you need to start positioning yourself because we
21 see this coming. And so they increased shelf space,
22 I'm assuming these guys over here increased SKU count,
23 I know these guys increased SKU count, to be prepared
24 for when that market shifted that not everybody's
25 going to put down solid flooring three quarter inch in

1 a new home, or they put it in new homes, they don't
2 put it in remodelings, it just doesn't work, you've
3 got to cut your doors and everything else to make it
4 work. So we saw it coming, that's why laminates,
5 LVTs, and engineers are more geared towards remodeling
6 than new construction or why solid three quarter inch
7 is not the number one choice for remodeling.

8 MR. HAMAR: To answer your question, in the
9 early part of the 2000s you were building a million
10 three, a million four houses a year. It went up to
11 2.2 million roughly in '05 '06. Essentially the
12 traditional U.S. manufacturers were really focused on
13 that market because they had relationships with the
14 national builders. They all had a whole sales
15 division aimed at the builder market, calling on the
16 Pultes, calling on the Lennars, calling on these
17 putting packages together, deals together, rebates on
18 houses, you know, and a whole very focused effort. It
19 was something that was impossible for the importers to
20 do because they did not have national distribution,
21 you could not buy a Chinese product across the whole
22 entire United States, it was very localized, very
23 regionalized.

24 So as demand was just booming in that area,
25 essentially the U.S. suppliers were at capacity just

1 meeting that demand. And they also had made a
2 strategic decision to protect the traditional channels
3 of distribution, which was independent retail floor
4 covering stores, the mom and pops that are all over
5 this country that have these big displays and the
6 traditional kind of floor covering store, and then the
7 builder market, that was the real focus.

8 What happened in the last ten years was the
9 emergence of the big boxes, whether it's, you know, in
10 electronics, in everything. But in construction it
11 was Home Depot and Lowes, Lumber Liquidators, Flooring
12 Decor which is a large chain of specialty retail floor
13 covering places, and that's really where this, they
14 didn't have access to U.S. manufacturers, they
15 wouldn't sell them. I mean some of these
16 manufacturers take great pride in telling their
17 distributors, we got a call from Home Depot last week
18 and we told them, no way are we going to sell to you.

19 So if you're the guy at Home Depot in charge
20 of floor covering, which is a huge segment to their
21 store, and these guys will not sell to you, what are
22 your options? You've got to go find it some place.
23 And that is I think what a lot of this is, because
24 they didn't need the business in 2003, 2004, 2005,
25 2006, because they were running their plants full out.

1 And then the housing business crashed and they
2 couldn't then change their model and then go after the
3 Home Depots and the Lowes because the train had
4 already left the station.

5 MR. HUBBARD: I want to expand on that just
6 a little bit.

7 MR. FETZER: Could you just identify
8 yourself for the?

9 MR. HUBBARD: I'm sorry. Clint Hubbard with
10 Home Legend. We can show data that shows the growth
11 of the home centers. The home centers will take a
12 market share from the independent retailers. And two
13 of the Petitioners here today had refused to sell to
14 home centers, okay? Home center market share of the
15 hardwood market is as much as 40 percent now, okay?
16 So this is a huge segment of the market, and those
17 guys did not participate in it. And he's exactly
18 right, everything was fine as long as home new
19 construction was great, when new construction crashed
20 they missed, they didn't have the lion's share of the
21 rest of the growth of the marketplace, they did not
22 participate.

23 MR. FETZER: So I think what I'm hearing
24 here, the story may not be so much the builder market
25 versus replacement but maybe the focus should be more

1 on these big box stores, is that more where there's a
2 difference?

3 MR. HAMAR: Consumer buying trends, it's
4 channels -- Jeff Hamar from Gallagher. It's consumer
5 buying trends, it's channels of distribution to the
6 consumer, it's consumer buying preferences. There has
7 been a major shift in the United States in many many
8 industries.

9 MR. TRAIN: The industry's changed.

10 MR. HAMAR: The industry's changed. And
11 what happened is that it changed at the same time that
12 globalization became a reality and the U.S. suppliers
13 tried to hold on to an old model, a model established
14 in the '80s and the '90s that simply stopped working.
15 And they were able to defer decisions in 2003, 2004,
16 2005, to adjust to this new model because of the
17 business being so strong for them in the new home
18 construction segment.

19 MR. PERRY: I think the other thing that
20 happened, and at least listening to the importers
21 here, is that when the recession hit the new homes got
22 hit the most. So people now are not so willing to go
23 out and buy a new home, so what do they do? They like
24 their house, they want to remodel it. And so it's
25 really the crisis hit at that time.

1 MR. HAMAR: The other thing I would add,
2 Jeff Hamar again, is that most of the engineered
3 multi-ply flooring went in places where it was flat
4 such as Florida, California, Arizona, and Nevada. And
5 in some of those high, like California where we're
6 based, we were selling huge upgrades, which means
7 people would buy a \$700,000 house put \$100,000 in
8 upgrades, better floors, better window treatments,
9 because they expected the value of the house to
10 increase significantly then they would like flip or
11 sell the house, and that's where most of the
12 engineered flooring was going by these U.S.
13 manufacturers.

14 Those markets, as you I'm sure know, have
15 been aptly devastated the most. The Midwest not as
16 bad, the Northeast not as bad. So when you look at
17 this drop in home starts, California, you're talking
18 about 69 percent across the country, California's
19 going to be 80 or 85 percent. And that was by far
20 Mannington, Anderson, and others' biggest market, by
21 far six or seven years ago.

22 MR. DOSSCHE: I'd like to add something to
23 that as well please. Pete Dossche with U.S. Floors.
24 Over the last couple of years the independent retailer
25 has had a very very tough time. I mean if you were

1 traditional small independent mom and pop store with
2 your displays from all the manufacturers out there in
3 your store and you're waiting for the consumer to
4 specifically walk in just to buy flooring because
5 that's a destination then, they've had a very tough
6 time. And many many of those have gone out of
7 business, many have seen their stores close.

8 The traffic has been in the stores where the
9 consumers shop other items then flooring, or in
10 specialty type of flooring stores like Lumber
11 Liquidators, which basically have been sorting out the
12 value that they bring to the consumer in the last
13 number of years through some tremendous advertising.
14 So if you were a consumer and you walk in a Home Depot
15 or Lowes store or a Flooring Decor, and you really
16 don't need flooring because when times are tough you
17 can always wait a little bit, but you're there for
18 your paint and your hammers and your light bulbs, and
19 there's an ad that says, you know, flooring today
20 installation free, opportunity or no credit or no
21 payment until 2012, or all kind of things, I mean you
22 say, well maybe this is a good time because now prices
23 are very competitive, everybody wants to keep selling,
24 the opportunity is here.

25 So what I'm saying is the traffic and the

1 business has been going doorstop of environments,
2 environments like Lumber Liquidators as well that have
3 provided the consumer with the proposition of value
4 products and selection as well. The independent
5 retailers in the last two years has suffered
6 tremendously, many many thousands, many hundreds have
7 gone out of business. This has been like Jeff was
8 saying this has been primarily focus and primarily
9 customer of the Shaws, the Mohawks, the Manningtons,
10 Anderson to an extent, of this world, they have
11 focused on this type of consumer and choose not to do
12 business with the challenges that have been growing.

13 MR. ELBRECHT: Clyde Elbrecht with, and this
14 time I'm going to say the Masters Craft Corporation
15 because we are a distributor to small, to the home
16 owned store. And I'm going to say the mom and pop
17 operations have not simply gone out of business, they
18 have gone out of business if they have not innovated.
19 If they have innovated, looked at new product designs,
20 new ideas coming in, many of them coming in from
21 China, they're able to succeed, they're able to
22 compete with Lumber Liquidators.

23 If they're locked in the model where you go
24 in and you just have one large display from one of
25 the, from a single company and that dominates the

1 whole wall in your store and you have to pick your
2 products from that, you're in trouble. If you're
3 innovative enough to look for new different kind of
4 products, you're buying the same kind of things like
5 acacia that Lumber Liquidators are buy, because they
6 can buy acacia in the same way Lumber Liquidators can
7 buy acacia. If you innovate you can compete. The
8 ones who have innovated are still in business.

9 MR. FETZER: Thanks. So what share of this
10 replacement market are these big box stores? Is it
11 the majority, I mean is it, versus maybe the mom and
12 pop stores or I don't know if there's other parts, I
13 mean if the general contractors are in there somehow
14 or they just purchase from big box, how does that?

15 MR. HUBBARD: We have an article that
16 suggests that the home centers have captured 28
17 percent of the total flooring market, I think that's
18 the number.

19 MR. FETZER: Sorry, total foreign?

20 MR. HUBBARD: Total flooring, all products,
21 that would be carpet --

22 MR. FETZER: Sorry, I thought you said
23 foreign.

24 MR. HUBBARD: And that would be all
25 products. Now they've captured a larger percentage of

1 any do-it-yourself products. Carpet for instance is
2 not a do-it-yourself product. And independent
3 retailers have retained some of their market share or
4 not lost as much market share to the home centers in
5 the carpet business. But in click locked flooring and
6 laminate flooring, which is a click lock technology
7 where it's a do-it-yourself or buy-it-yourself
8 product, they've captured a much larger share, and
9 there are estimates up to 40 percent of the total
10 share in those type products.

11 MR. FETZER: Okay. Thoughts, Mr. Bowen?

12 MR. BOWEN: This is Kevin Bowen with BR
13 Custom Surface. The other thing is that, you know,
14 the big box guys are good at innovating also. In the
15 last three or four years, I'm sure Lumber Liquidators
16 have done this, is they've actually set up all these
17 contractor breakfasts, they've actually gone after the
18 contractors which used to go to the Manningtons and to
19 the Shaws. They've actually effectively gone after
20 all the builders and contractors they can get their
21 hands on in the last four years, because those guys
22 have to make a living so they're going to start doing
23 the remodeling. So they give them discount cards,
24 they do everything to drive them to the big box
25 retailers. And so again it's all about innovation,

1 and these big box guys are doing whatever it takes to
2 find the business. And at this point they're driving
3 contractors, which is part of the old home
4 construction market.

5 MR. PERRY: One thing I might add is this
6 click and lock issue. Because the Petitioners were
7 asked how much is click and lock? And they said, oh
8 about 10 percent of the market. 90 percent of the
9 sales is click and lock.

10 MR. FETZER: I'm sorry, and what's click and
11 lock? Just to clarify.

12 MR. PERRY: Some samples if you'd like.

13 MR. BOWEN: Yeah, Clint's probably got it.

14 MR. HUBBARD: For a floating floor today you
15 have technologies that are most of which were
16 developed in Europe and where you now install, instead
17 of using glues and nails you can just click the
18 product together like that, okay, and so it holds
19 together. And that would be a click lock floating
20 floor installation that is now not glued down or
21 nailed to your floor, you can pick this up and take it
22 with you if you had to.

23 MR. FETZER: If you're insecure about
24 someone stealing your floor.

25 MR. BOWEN: So again this is --

1 MR. HUBBARD: And at some point, you know,
2 we can talk about the technology differences that the
3 domestic manufacturers have been slow to adopt in the
4 engineered wood floor business, they have relied
5 traditionally on these traditional products of five
6 layer, seven layer and the like that are tongue and
7 group type products, they've been very very slow to
8 adopt these click lock do-it-yourself products, which
9 is a huge growth segment in this industry.

10 MR. BOWEN: And again the reason that
11 segment's growing, this is Kevin Bowen with BR Custom
12 Surface, is that it's the do-it-yourself market
13 because instead of paying an installer \$3.50 or \$4 to
14 come in and put in a floor for you, you can actually
15 install a click flooring yourself on a Saturday
16 afternoon in your office at your home. Again it's
17 part of the market segment. The economy tightened up,
18 people don't have as much discretionary income, and if
19 you're going to spend \$5,000 redoing your house
20 typically the last money you spend is on your floor.
21 You know, you're going to buy the flat screen TV and
22 you're going to buy the couch before you put a floor
23 in, and there just happens to be a lot of alternatives
24 out there that these guys sell and that we market that
25 are do-it-yourself friendly.

1 MR. FETZER: Okay, thanks.

2 MR. LUDWIKOWSKI: This is Mark Ludwikowski.
3 One other point to that is the availability of
4 different products now that have come out in the last
5 few years, and that actually has been one of the
6 driving factors for the growth. We mentioned some of
7 the exotic species and the SKU numbers have increased
8 for all of these suppliers, I think Lumber Liquidators
9 is supplying a significantly different type of product
10 than the Petitioners are. I mean it's not an
11 interchangeable product where you have strictly oak or
12 maple, I mean there are exotic species which are a
13 primary aspect of their imports, I think you're
14 looking close to, you know, about 50 percent of their
15 product is different than oak and maple and hickory.

16 MR. JAKOB: John Jakob here from Lumber
17 Liquidators. Our model has us uniquely positioned
18 where we can hear the voice of the customers directly,
19 and the products that we develop are developed to meet
20 our customers' demands, what they ask for, what they
21 want to see, what styles they want to have, and we
22 spend the time painstakingly to develop and style
23 these products for them.

24 MR. FETZER: Thanks. I think there were a
25 couple comments regarding the Petitioners not being

1 willing to sell to some of these, particularly the big
2 box suppliers, and I mean I think the Petitioners have
3 said, you know, they're willing to make anything, you
4 know, sell anything, although they may say they're not
5 doing it because of price issues. Do you have any
6 additional information, and maybe this will be for a
7 postconference brief, where you could show examples
8 of, you know, they weren't able to, why they may have
9 denied supplying to these big box or any insights you
10 could provide that could help explain that better?

11 MR. HAMAR: I mean I think, this is Jeff
12 Hamar, I think it's largely a marketing and strategic
13 decision that they've made. They have aligned
14 themselves with independent flooring retailers who see
15 the big boxes as their principal competitor, and they
16 have said that we will only support our independent
17 channel which is independent retailers. And they use
18 that as a marketing basically message to many of these
19 people. Now some of the manufacturers have gone both
20 ways and they're selling to, you know, selling into
21 Home Depot and Lowes, they may do it different brands
22 or different products, but it's not common in the wood
23 flooring business. In fact there's only one or two
24 U.S. manufacturers that have really successfully sold
25 wood flooring in that brand into those home centers

1 and they're not the Petitioners.

2 MR. PERRY: You know, I'd like to ask John
3 Himes because he used to work at Mannington.

4 MR. HIMES: Sure, sorry, John Himes with
5 Brandywine International Hardwood. And as Jeff
6 stated, it was strictly a matter of at several
7 different companies, not only Mannington but several
8 of the others, of a stated strategy that home centers
9 typically are in direct competition with independent
10 retailers, not unlike Home Depot and independent Ace
11 Hardware stores and that type of thing.

12 So it was a strategy at several large
13 manufacturers to if you will cast your lot or your
14 chips with the independent retailers and by doing so
15 say, we're not going to sell that other channel, we're
16 only going to sell you guys and for that we'd like
17 your loyalty, which worked fantastic during those
18 times but as things got worse it didn't pay off the
19 way people had hoped for.

20 MR. FETZER: Okay, thanks. Okay, in terms
21 of the market share I think the number about 40
22 percent for the big boxes out there, what share would
23 these independents be? Because I'm assuming that the
24 total ply includes new housing starts to, new building
25 I guess. So would the independents, because I think

1 the Petitioners said the market may be about 50-50
2 replacement and new building. So would it be 10
3 percent or would you, for the independents?

4 MR. DOSSCHE: This is Pete Dossche with U.S.
5 Source. I just have an article here, and I just, I
6 can share this with you.

7 MR. FETZER: Sorry, I think you already
8 showed that.

9 MR. DOSSCHE: Yeah, and this is salesbar
10 retail channel and it's just overall flooring not just
11 wood flooring. And in 2009 the specialty flooring
12 retail channel was 47 percent of the market, so the
13 independents were 47 percent of the market. 2008 that
14 number was 54, so a decline basically of 7 percent.
15 The home centers in 2009 had grown from 28 percent of
16 the market, to 28 percent of the market from 22
17 percent in 2008, so an increase of 6, so basically
18 almost a clear swap.

19 MR. FETZER: To the extent that in
20 postconference you can, you have numbers for the
21 multilayered wood flooring market, I'd appreciate
22 that. Mr. Train, did you have a comment?

23 MR. TRAIN: Yeah I do. I think if you can
24 play off of that number, if that takes total flooring
25 I would have to think the amount for engineered wood

1 flooring for that number would probably be about the
2 20 percent range of what the home centers have.

3 MR. FETZER: I'm sorry, 20 percent of what
4 the home centers have?

5 MR. TRAIN: The home centers would have
6 about, that would be my estimation would be about 20
7 percent of the, you know, of the engineered wood
8 flooring market.

9 MR. FETZER: Okay.

10 MR. TRAIN: You think it's higher than that?

11 MR. FETZER: Well we can have different
12 answers, that's okay, we can do ranges and, you know,
13 different market experiences.

14 MR. PERRY: I should say Jonathan sells to
15 smaller guys, Kevin sells to bigger guys.

16 MR. TRAIN: Yeah, so we all have different
17 perspectives, but.

18 MR. FETZER: Well maybe in the
19 postconference briefs if you could just give me some
20 sense and then we'll have some idea of it, and
21 obviously not everybody can agree depending on their
22 experience but then you're selling a different, you
23 know, you're in different market segments, so.

24 MR. ROGERS: This is Tom Rogers. I just, I
25 noted this morning that their comment with respect to

1 the replacement market was that they believed that it
2 used to be 50-50 and now it seemed to go up to 60 65
3 percent within the replacement market. So there is,
4 appears to be a pretty dramatic shift going on there.

5 MR. FETZER: Okay, I might have remembered
6 that wrong but a lot of numbers were being thrown
7 around.

8 MR. ROGERS: Right.

9 MR. FETZER: So I appreciate that
10 clarification. Mr. Hubbard, you've mentioned some
11 kind of demonstration about production. How long
12 would that take?

13 MR. HUBBARD: Oh well I mean, you know, I
14 did partially demonstrate, you know, this click
15 technology. We've talked about a lot today about the
16 Epic Shaw plant they brought up and we've talked about
17 the success that product has had, which is a three
18 eighths inch HDF product, which is there are only two
19 manufacturers in the United States that make that
20 product that we know of.

21 And Shaw having built this large plant in
22 Alabama, or in Tennessee, I'm sorry, and that they're
23 doing very well with, well we have a similar product
24 but they have not employed the latest technologies in
25 terms of their click lock mechanism as well. So, you

1 know, the point that we're trying to make there is
2 that when U.S. manufacturers invest in technology or
3 invest in a new product category, which is a three
4 eighths inch core which brings a thinner product, a
5 lower cost product to the consumer, and that they are
6 successful.

7 So but I can demonstrate, you know, we can
8 demonstrate this click lock product here, and then we
9 can also show you an older technology that exists at
10 the Epic plant and their locking technology which
11 doesn't actually, you know, completely hold together.
12 So that's the only point we're making, that it's this
13 technology improvement and these HDF core boards which
14 are primary recycled, we have a recycling method
15 that's out there as does Shaw, and with recycled
16 content and these are the things that the consumer is
17 wanting and asking for, and these are again the do-it-
18 yourself products. So when they come out with a do-
19 it-yourself product and an HDF core they're wildly
20 successful with it.

21 MR. FETZER: So when you're talking about
22 technological differences you're talking about
23 differences in the technology of the --

24 MR. HUBBARD: I'm talking about the click
25 lock technologies and that being a huge growth segment

1 in our industry that the U.S. manufacturers have been
2 very slow to adopt in engineered wood flooring, which
3 is a huge part of the growth in my business is all in
4 click lock do-it-yourself products. And so we have a,
5 you know, a product like that, and there are many
6 click lock technologies available out there. And, but
7 you know, this one, although it's an older technology,
8 although if you pull this way it holds together, you
9 know, it won't hold together otherwise, it doesn't
10 really lock into place. Those are the kind of
11 technologies we're talking about.

12 MR. FETZER: Okay, thanks, I appreciate
13 that. On the panel are there folks who also source
14 U.S. produced products at all? Okay, have you, and
15 since the beginning of the period of investigation
16 which I believe 2007 for us, have you ever rejected
17 supply either from U.S. producers or from foreign
18 sources? And I guess I'd open the question to anyone.
19 And if you feel like answering in postconference
20 that's fine or, you know, whatever you're comfortable
21 with.

22 Because I think earlier there was talk in
23 the panel about having stringent specifications or
24 some type of qualification test, and I was wondering
25 generally if there's, even if you want to be general,

1 are there a lot of failures or is it usually if
2 people, you know, know it's there do they end up
3 passing and how is it, what's the typical practice
4 with that? Are there a lot of rejects?

5 MR. HAMAR: I mean in the last four years
6 we've probably sold \$50 million, which is a fairly
7 significant number for an independent distributor.
8 And you can count on, you know, a couple of fingers
9 the number of the thousands of containers, you know, a
10 couple that had some quality issue. That was very
11 sporadic, it wasn't like everything was bad. So
12 generally the quality we find from China has been
13 outstanding, and in many ways it exceeds, it exceeded
14 several years ago the quality of U.S. produced
15 products although U.S. products have improved their
16 quality in recent years.

17 But if you go back ten years the quality of
18 U.S. products was not particularly good, made in the
19 United States. And what we do obviously is we always
20 have inspectors in China as well, and most companies
21 do, that will go to the factory before the product
22 ships, and very rarely do they find anything that's an
23 issue, so the quality, that's not a problem.

24 MR. FETZER: And what about U.S. producers,
25 have you rejected any U.S. producers?

1 MR. HAMAR: No. I mean there is
2 occasionally claims, but they're, you know, less than
3 half a percent of your total sales, it's a very very
4 small number. And generally a lot of the claims are
5 not necessarily due to true manufacturing mistakes,
6 it's job site related, it's installation related. I
7 think generally speaking there is great parity now
8 between products from any country in the world that
9 comes into the United States and the quality is really
10 exceptionally good. And the vast majority, I mean 99
11 plus percent of consumers that buy that wood floor are
12 very satisfied with that floor after it's been -- for
13 years beyond.

14 MR. PERRY: Let me just add one point. When
15 he says quality it's not just China. It's China,
16 Indonesia, Malaysia, Brazil, all of these countries.
17 So these guys are getting on planes looking for
18 alternative sources of supply, and that brings up
19 Bratsk.

20 MR. TRAIN: Are you asking about rejected
21 due to quality or due to any type of issues buying
22 from them?

23 MR. FETZER: I was asking along the lines of
24 quality but if there's other issues I'd be interested
25 in hearing about those.

1 MR. TRAIN: Well, you know, we started off
2 as our distribution for hardwood flooring was one U.S.
3 supplier, and that's all we did and that was
4 everything. And we stuck by them, you know, for many
5 many years. But once the consolidations started
6 happening we stopped buying from them because they
7 took those unique, you know, the few differences in
8 our product at that time and started making it under a
9 competing brand, so now we were going head to head on
10 the same stuff in the same box but under a different
11 label.

12 We, you know, the other reasons we started
13 changing it as Jeff said, you know, to a quality
14 issue. Ten years ago we went through tremendous claim
15 issues with our U.S. suppliers, and that idea of
16 having that U.S. brand I think really lost some
17 emphasis. Where the consumer really felt where they
18 needed to know they were comfortable with was at, you
19 know, at a level of the, especially if they're getting
20 an installed product, was that independent retailer
21 feeling comfortable with them regardless of what brand
22 they sold.

23 And then the other reason that I think, you
24 know, for instance Shaw has come to us before wanting
25 to sell us products for their wood flooring, for their

1 laminates, things like that. If they're not capable
2 of differentiating the product, because I think the
3 things to distinguish here is they talk about
4 interchangeable. There's a difference between
5 interchangeable and substitute products.
6 Interchangeable is they want you to see it is all
7 about price.

8 Well substitute means the consumer is having
9 to make a choice, you know? Do I care more about a
10 look or a design and want to give up on form and
11 function? You know, but what you're trying to do is
12 you're trying to pose a proposition to that customer
13 to have them make a choice. And if that supplier
14 can't give me something to tell a story to say, well
15 this one's different because, now you have to choose
16 do you want this one or do you want that one.

17 MR. JAKOB: John Jakob here from Lumber
18 Liquidators. As I mentioned in my testimony we have a
19 very strict policy and procedures on how we choose our
20 suppliers. And we have turned down U.S. suppliers and
21 we have purchased from U.S. suppliers, we've turned
22 down Chinese suppliers and we've purchased from
23 Chinese suppliers. It all boils down to overall
24 quality and serviceability. If the supplier can prove
25 quality consistently well then they're in the running

1 to be, you know, a supplier going forward. If a U.S.
2 supplier can do the same then they have the same
3 opportunity.

4 MR. FETZER: Mr. Elbrecht?

5 MR. ELBRECHT: Clyde Elbrecht. And being
6 both a U.S. manufacturer of flooring as well as
7 manufacturing flooring in China, we have quality
8 standards that we apply to our domestic production,
9 and when we first went over to China the observation I
10 made is that while they made mistakes in the early
11 days they're very quick learners and very much have a
12 servant attitude toward the idea of improving quality.
13 And I think this is because, well I don't know, it's
14 just part of who they are. And so we've just seen
15 constant improvement. I don't think we've had a
16 quality issue on a product we've made over there in
17 about three years.

18 MR. FETZER: Okay, I appreciate that. Mr.
19 Hubbard?

20 MR. HUBBARD: Clint Hubbard with Home
21 Legend, just one quick comment. We also employ
22 quality control managers and have strict quality
23 control standards with all our partners and suppliers
24 in China, and our large customers tell us that their
25 claims rate with our products is as good or better

1 than domestic suppliers.

2 MR. FETZER: Okay, I appreciate that. Quick
3 question, do you typically have multiple suppliers?
4 Maybe some range of how many. I mean is it, this
5 morning the Petitioners indicated that typically they
6 believe that distributors use more than one source of
7 supply but is that, that's typical? And is there a
8 reason for that or just to have variety or is it to --
9 I don't want to put the words in anyone's mouth. Mr.
10 Train?

11 MR. TRAIN: Different, you know, different
12 companies in China have different abilities to do
13 different things. We buy an HDF product, you know,
14 but that other companies don't have that capability
15 yet. We buy a product that is hand stained, some
16 factories can do hand staining, some can't. We buy
17 some products that has very thick veneers, very thick
18 top layers, they saw their veneers. Some factories
19 have those types of frame saws, some do some don't.
20 So again it comes down to offering a choice to our
21 customers and finding the places that can do that.

22 MR. PERRY: I just might add again it's the
23 Petitioner's point which was to kind of try and knock
24 off everything, it's just a flow through thing. What
25 you have is because of the tremendous amount of

1 variety here you have a lot of niche markets. And as
2 a result producers specialize in certain areas,
3 certain different types of woods. And what used to be
4 when the domestics were in control they would offer
5 ten products and say, that's it. And now we're
6 talking hundreds that are being offered, and that's,
7 it's the customer choice and it's being driven by the
8 big box guys who are really catering to the consumer.

9 MR. LUDWIKOWSKI: I think that goes to the
10 point of that this is not a commodity, and some of the
11 species, some of the visuals that can be achieved are
12 currently only available in China, and this has been
13 the experience I think with Lumber Liquidators with,
14 you know, acacia and the Chinese birch for example.

15 MR. ELBRECHT: We have a strategic
16 relationship with a single producer.

17 MR. FETZER: Okay, thanks.

18 MR. JAKOB: John Jakob from Lumber
19 Liquidators. Again our needs and, you know, our
20 demand for product, we actually have to supply from
21 multiple suppliers.

22 MR. FETZER: Okay, thanks, I appreciate
23 that. I think that's all the questions I can think of
24 at the moment, but if I think of something else I
25 might come back to the panel. But I really appreciate

1 all your responses and for you coming out here this
2 morning to help us learn more about this market again.
3 I think we mentioned earlier this is a new one for us,
4 so -- I wasn't on the 332, I know we did the 332
5 studies but it's new for me at least, so I really
6 appreciate your responses.

7 MS. DEFILIPPO: Thank you, Mr. Fetzer. Ms.
8 Klir, do you have any questions for this panel today?

9 MS. KLIR: This is Mary Klir, Office of
10 Investigations. I don't have any questions for this
11 panel. I do want to thank you for your testimony. I
12 would just invite counsel on this panel for
13 postconference if you would like to address the
14 question I asked of the earlier panel on analyzing the
15 variation in profitability among the U.S. producers.
16 That's all, thank you.

17 MS. DEFILIPPO: Thank you, Ms. Klir. Mr.
18 Goetzl, questions?

19 MR. GOETZL: Thank you again. Once again
20 thank you very much for appearing today, testimony's
21 been very very interesting, very helpful. My first
22 question is actually a request of Mr. Neeley. If you
23 wouldn't mind providing in your postconference brief
24 the actual list of HTS codes that you utilized in
25 compiling the data in your charts, that would be

1 helpful.

2 MR. NEELEY: We had planned to do that, so
3 we'll be glad to.

4 MR. GOETZL: I figured. And the other part
5 of that of course is if you can indicate what
6 conversion factor assumption you used in converting
7 from cubic meters to square feet.

8 MR. NEELEY: Actually I think that may be in
9 that key somewhere --

10 MR. GOETZL: Oh, is that in there?

11 MR. NEELEY: But we'll give it to you.

12 MR. GOETZL: Okay, I appreciate that very
13 much, thank you. My order of questions here may be
14 somewhere disorganized because I think I'm going to
15 try to do it based on the testimony that each of you
16 presented so I may be jumping back and forth for a
17 little bit and I apologize for that. I guess to begin
18 with there was some discussion about acacia and Asian
19 birch being a predominant species in the Chinese
20 product. Is that actually being marketed as acacia
21 and birch flooring or is that the species that's being
22 utilized to create different types of appearances that
23 are marketed differently? I don't know if Mr. Jakob
24 wants to respond to that or someone else?

25 MR. JAKOB: Certainly. It's the visual that

1 the species provides and what we're able to craft out
2 of the natural characteristics of that species, the
3 way it takes a stain, can I hand rub it, can I achieve
4 different effects with different stains. When I hand
5 scrape it does it scrape a certain way, does it give a
6 softer visual or a harder visual, and that's driven by
7 the actual density and the actual structure of the
8 species specific, and that all goes to the look that
9 the customer is asking for and how we're able to
10 achieve that.

11 MR. GOETZL: Are you saying then that U.S.
12 species are not adaptable to doing that and that
13 acacia and Asian birch have those unique
14 characteristics?

15 MR. JAKOB: Yes, they enable us to achieve
16 those looks.

17 MR. GOETZL: Anybody else want to comment on
18 that?

19 MR. TRAIN: We market those as acacia and we
20 market those as birch. We put together a series of
21 products and when that store puts that our display in
22 their showroom we believe that it complements what
23 else is in their showroom, whether it be a Mannington
24 or a Shaw display, whether it be, you know, Anderson
25 or anything else for that matter, there's not a whole

1 lot of duplication in our display compared to what
2 else they have there, and I think a lot of us can say
3 the same thing. And so we like to market the
4 different names and show those. Birch is often, we
5 use the word petula, that's the scientific name for
6 it. Sounds sexier, doesn't it? Yeah, okay.

7 MR. JAKOB: We also market the birch and
8 acacia names.

9 MR. TRAIN: Yeah, and then the acacia, you
10 know, again it talks about market differences. You
11 know, I live in the Bible belt, acacia means something
12 down there. People don't know it but it does. I
13 shouldn't share this so, anyway I'll share that at the
14 post brief.

15 MR. GOETZL: Thank you, I appreciate those
16 responses. Incidentally, I should have started out by
17 saying I'm Alec Goetzl with the Office of Industries
18 here at the Commission. I apologize for that, for not
19 saying that earlier. I'd like to turn to the matter
20 of maybe of employment a little bit in the industry
21 and on the part of the distributors and some of the
22 factories that are represented here. Mr. Elbrecht,
23 maybe we can start with you. You mentioned earlier
24 that as I understand it your company ships lumber to
25 China which is then sliced and veneer that is used on

1 the flooring, but you also said that you plan on
2 bringing that operation back into the U.S. Can you
3 elaborate a little bit on that? And also maybe your
4 particular experience with the employment trends in
5 your operations over the period of the investigation
6 from 2007 forward?

7 MR. ELBRECHT: Yeah, let me say I think what
8 we do may be quite unique in that we do not buy
9 product from the Chinese market. What we do is ship
10 our own lumber over there, we start out with the raw
11 materials, then we ship the raw materials to China,
12 where we make it into the saw-cut veneer, it's still
13 our lumber at that point.

14 MR. GOETZL: Excuse me, you're shipping
15 lumber or are you shipping logs?

16 MR. ELBRECHT: I'm shipping lumber.

17 MR. GOETZL: Lumber, okay, thank you.

18 MR. ELBRECHT: And then I rip it into a
19 dimension piece and I run it through a -- there is a
20 distinction between what you would call saw-cut veneer
21 and rotary veneer. Rotary veneer goes into the more
22 economical product, you take the log and you spin the
23 log and as the log spins it slices off a real thin
24 layer. In a saw-cut veneer you start with a piece of
25 wood, you make a blank, it goes through a machine with

1 a set of saws and you can make it 3 millimeter, 4
2 millimeter, 5 millimeter, 6 millimeter.

3 On a rotary product you really can't make a
4 wear layer much thicker than 2 millimeters. So to get
5 to the high quality, the more high quality floors, we
6 make the saw-cut veneer over there, that's still our
7 lumber, and then we laminate that to a Baltic birch
8 plywood, and we only use the Baltic birch plywood.
9 And to come back in terms of the comment, the Baltic
10 birch plywood with the thinner the veneer is the
11 higher quality product.

12 Whether that Baltic birch plywood is made in
13 Finland or Estonia or Russia or Canada or Wisconsin,
14 it has a perception to the customer of the highest
15 quality wood. And so we use Baltic birch plywood
16 because of the perception of quality to the customer.
17 Then we put it together and then we machine the
18 product, package it, and bring it back to the United
19 States.

20 MR. GOETZL: Is that done in your plant that
21 you own in China?

22 MR. ELBRECHT: We have a strategic
23 partnership with a plant in China, and in that, in the
24 company, this company Real Wood Floors, I have a
25 partner who is of Chinese origin.

1 MR. PERRY: Clyde, he was mentioning
2 employment. Because you were saying --

3 MR. ELBRECHT: We're a growing company.

4 MR. GOETZL: In the U.S.

5 MR. ELBRECHT: Yeah, we're a growing
6 company, we are consistently, we've been consistently
7 profitable through the difficult times, and our
8 product, it has a niche and that continues to grow.
9 And our, when we bought the manufacturing facility our
10 goal is to ultimately employ about 100 people.

11 MR. ELBRECHT: Where hardwood engineering
12 flooring is ultimately heading is much like the
13 automobile industry where the plywood may come from
14 one place; saw cut veneer may come from another place;
15 a finish may come from Sweden; the machine to make it
16 may come from Germany; the glue may come from Japan;
17 and all of this comes together to produce the hardwood
18 floor. The way we see the future, today, we make the
19 saw cut veneer in China. Once we get our factory up
20 and running and we can do what we want to do, then we
21 want to move the manufacturing of the saw cut veneer
22 from China, back to the U.S.

23 MR. GOETZL: But, you would still ship,
24 then, that veneer to China for assembly --

25 MR. ELBRECHT: Yeah.

1 MR. GOETZL: -- I presume.

2 MR. ELBRECHT: Uh-huh.

3 MR. GOETZL: Thank you. Mr. Dossche, can
4 you elaborate a little bit on your manufacturing
5 facility --

6 MR. DOSSCHE: Sure.

7 MR. GOETZL: -- and exactly what it does and
8 --

9 MR. DOSSCHE: Sure, I'll be glad to. My
10 facility has both what we call proof filing and
11 staining and finishing capabilities, which means that
12 I don't start with pressing veneer onto plywood and
13 then ripping it into planks. I buy the plywood. I
14 buy the four-by-four sheets out of China or I buy
15 four-by-four sheets of cork flooring out of Portugal
16 or I buy unfinished Jatoba Brazilian cherry planks out
17 of Brazil and I bring these to my plants. And then in
18 my plants, we have the capabilities of what Mr.
19 Hubbard was explaining, as well, profiling the rocking
20 mechanism into the cork flooring, profiling it into
21 the engineered wood flooring that we -- the sheets
22 that we buy from China or profiling a tooling groove
23 into the solid Jatoba Brazilian cherry that we buy
24 from Brazil. And then this product goes to our
25 staining and finishing line, where we apply either a

1 stain color and then the finishing layers to give the
2 scratch resistance that -- and layers that the product
3 needs. So, we actually need in our process access to
4 unfinished, all finished type of raw materials. It's
5 like an assembly plant. It's like a BMW assembly
6 plant at Spartanburg that makes everything, but
7 imports the engines from Germany. I need these
8 engines, so then I can assemble it and I can finish it
9 and stain it and then make it available as a finished
10 product to the U.S. market.

11 And from there, my organization -- this is
12 something that we started two years ago. And you say,
13 well, why did you start it when you saw that the
14 market was going down; the industry was going down and
15 the recession was up on us? I believe that --
16 obviously, I mean, I've been going to China for the
17 last 10 years. When we went to China 10 years ago,
18 what we saw were old plants with one lightbulb and 200
19 Chinese in the plant, with old equipment. Right now,
20 we see brand new plants, very well lit, latest
21 technology, and very efficient manufacturing. And I
22 believe that, you know -- I want to set my
23 organization up in a way we buy. I could make a
24 unique type of products that could differentiate from
25 some of the things that the rest of my competitors

1 were bringing into the markets. And I wanted to be
2 able to make something made in America, because I
3 could see that this issue at some stage was going to
4 come up. The RMB versus the dollar issue. I mean,
5 this situation here could be a moot point a year from
6 now when the currency will have taken care of what so-
7 called imbalances there might be. There's no
8 question, and I think it was mentioned early on,
9 prices are going up. Everything is going up in the
10 market, in China, and I believe that at some stage,
11 the pendulum that's swinging so far one way will come
12 back the other way and I wanted to set up an
13 organization that could basically be ready for this
14 and provide made-in-America products; yet source them,
15 source all the different type of items that are unique
16 that you can't find in the States, the Jatobas and the
17 cork flooring and the bamboo flooring and some of the
18 acacias and some of the other types that we look at,
19 source them in an unfinished format, provide labor and
20 manufacturing and employment in the United States and
21 then supply them to my customers.

22 MR. GOETZL: Let me just ask a follow-up
23 question before Mr. Elbrecht, if you don't mind. So
24 based on that answer, you're not sourcing any material
25 from within the United States: cork, plywood, or any

1 of the species --

2 MR. DOSSCHE: No; not at this stage, no.

3 MR. GOETZL: Okay. Is it something you
4 could do? Does your manufacturing facility, itself,
5 would that allow you to do that if you elected to do
6 so?

7 MR. DOSSCHE: Well, we would have to buy
8 from my competitors, which would make it very
9 difficult. I could ultimately do that. My
10 manufacturing equipment would allow me to do that.
11 But, since I don't have the pressing capacity, I would
12 have to find companies who can supply that to me and
13 most of them would be my competitors.

14 MR. GOETZL: I understand. Thank you, very
15 much. Mr. Elbrecht, did you want to comment further?

16 MR. ELBRECHT: I'm going to hand you this.
17 Five years ago, we primarily made hickory into
18 railroad tires and pallets. With the emergence of the
19 hand-scraped floor and the look that -- hickory has
20 such a beautiful rusted look; but when you hand scrape
21 it, it just brings out the elegance of hickory. So,
22 we've seen the market go from -- move up to where
23 hickory today, as you can see in the market reports,
24 sells somewhere between 90 cents to a dollar a square
25 foot. We will ship over 100 loads of hickory lumber

1 to China this year. We'll make saw cut veneer out of
2 the hickory lumber. We'll hand scrape it and then
3 we'll bring it back to the U.S. market.

4 MR. GOETZL: Thank you. Since you brought
5 up the hand-scraped flooring, I'm a little curious as
6 to if anyone has a feel for what percentage of the
7 total U.S. multilayer wood flooring market might be
8 accounted for by the hand-scraped look and, if so, how
9 much of that is actually represented or accounted for
10 by imports? And I understand these numbers are hard
11 to get and hard to estimate; but if someone has a
12 general feel for that, I would appreciate any insight
13 you might have. I'll open that up to the panel.

14 MR. HAMAR: This is Jeff Hamar. We actually
15 were the first company to ever sell hand-scraped
16 engineer flooring in the United States. We literally
17 had a thousand woods across the street. We'd lay out
18 the wood. We would buy unfinished wood from the U.S.
19 manufacturer. We would scrape it; we'd staid it on
20 the concrete floor; I think put a finish on it; come
21 back two days later, take it apart and put it in boxes
22 and sell it. And we would sell it for \$10 a square
23 foot back in 1995. We couldn't make it fast enough
24 and end up putting it on pre-finished lining actually
25 and have Mikeli Door in Mexico. So, it's been a very

1 successful product for us.

2 The product today is very regionalized. In
3 the west coast, it probably is 75 percent of the
4 market. There's other parts of the country would be
5 significantly less than that. So my guess is across
6 the country, it's probably not more than 50 percent,
7 but it would depend on the location and the type of
8 momentum that we use in that local regional area to
9 what the level of sales would be.

10 FEMALE VOICE: 30 or 40 percent maybe?

11 MR. HAMAR: I think that's the best guess I
12 could give you.

13 MR. GOETZL: Thank you. Anyone else care to
14 comment on that?

15 MR. DOSSCHE: Yes, Piet Dossche of U.S.
16 Floors. I think that sounds a bid high, I think the
17 50 percent of the market there.

18 MR. TRAIN: This is Jonathan Train. I would
19 agree. I think it would be closer to about 30 percent
20 on a national level.

21 MR. DOSSCHE: Twenty-five, 30 percent.

22 MR. TRAIN: But, it is very regional.

23 MR. GOETZL: That's 25 to 30 percent of
24 multilayered wood flooring market is accounted for by
25 this hand-scraped material or product?

1 MR. DOSSCHE: Hand scraped or antiqued. I
2 mean, hand scraped --

3 MR. TRAIN: Distressed.

4 MR. DOSSCHE: Distressed, some type of
5 distressed form.

6 MR. GOETZL: And of that, any feel for how
7 much of that is imported, as compared to produced
8 domestically?

9 MR. DOSSCHE: I think we would have to
10 research data.

11 MR. GOETZL: If you'd care to comment about
12 that in your post-conference brief, that will be fine.

13 MR. DOSSCHE: Yes.

14 MR. GOETZL: Thank you. I appreciate that.
15 Just one or two other questions and then I'll finish
16 up. The Petitioners have presented a point of view in
17 some of their documentation that there's a distinction
18 between the floor covering market and wood flooring,
19 the floor covering market consisting of carpeting,
20 vinyl, and laminated flooring, whereas the wood
21 flooring market is solid wood and multilayer wood
22 flooring. Is that a distinction that, as
23 distributors, you would share or see in the
24 marketplace or do you have any comment on that?

25 MR. TRAIN: I think that board kind of says

1 it all. You know, the consumer is looking for a
2 design, you know, wood look, some natural element.
3 They're looking for a wood look. They're looking for
4 a ceramic look. There's multiple ways to get that
5 visual. And whereas 10 years ago, there are
6 substitute products. The gap between that substitute
7 product and the original natural product, there's a
8 huge gap and today that gap has shrunk, I think,
9 tremendously. How many of you, when you looked at
10 that, especially from standing up and looking down at
11 that board could truly tell the difference as to what
12 the actual material was? And I think the consumer,
13 they're faced with the choice of, I have a budget of
14 \$15,000 I'm going to spend on my home or \$5,000 or
15 whatever that amount is, where am I going to spend it?
16 And you've seen these shows, like Design on a Dime and
17 things like that. You know what, you can go for these
18 substitutes, save all that money, and then now you can
19 reinvest it on all these other things that are
20 available for your home, that aren't available
21 elsewhere.

22 And that's another thing, I think we fail to
23 lose sight of in our industry in general. You know, a
24 lot of times, we think we're just fighting against
25 each other for the same products, but that's really

1 not our biggest competition. You know, I think the
2 milk industry was a great example. You know, they did
3 all that advertising. They weren't competing against
4 each other. They were competing against every
5 consumable beverage out there. And we have to be
6 looking at, you know, flooring is competing against
7 every other product that a consumer might use those
8 same funds for. And so, you know, if a floor today
9 would cost you \$5,000 to do that particular square
10 footage of your home, a 500 square foot area of your
11 home, well, you know, and it jumps to let's say
12 \$8,000, you're going to choose a substitute and spend
13 that money on something else that gives more value to
14 you, personally. So, that's my soapbox.

15 MR. HAMAR: Jeff Hamar. I would also add
16 that I think historically, they're right, that ceramic
17 tile and wood flooring had been looked as permanent
18 installation products. It can stay in that home for a
19 very, very long time. And carpet and vinyl and
20 laminate floor covering, you'd have to replace at some
21 point in time. But what has happened in the last five
22 or 10 years, there have been dramatic improvements in
23 the quality of the vinyl and the laminate products,
24 that they now will last for 10 or 15 years. It's not
25 like back in the 1960s and 1970s, when vinyl floors

1 had these pink flowers on it and the green this, where
2 it would literally ugly out in five or six years and
3 that's why you had to replace it, it just was hideous
4 looking. And we now have this very natural-looking
5 product, what these manufacturers have driven to,
6 whether it's vinyl or laminate. And so those floors,
7 you know, they can last 10 or 15 or 20 years. And so,
8 I think the distinction between flooring and floor
9 covering is not nearly as broad as it was in the past
10 and has become much closer in terms of the life
11 expectancy of those products.

12 MR. GOETZL: Mr. Elbrecht?

13 MR. ELBRECHT: In the earliest days of hand
14 scraping, we would visit with the officials at the
15 Oklahoma penitentiary system and we thought about the
16 idea of hand scraping our floors in that penitentiary.
17 And we pondered that and then we went to China. And I
18 think in the earliest days, it was probably the amount
19 of hand labor that goes into it and the cost that
20 related to that. But over time, they have gotten
21 very, very good at design in their hand scrapes. And
22 their hand scrapes, they can create very elegant
23 looking hand scrapes and very rustic looking hand
24 scrapes. And the market across the United States is
25 so diverse. The look that they like in Texas is a

1 much more rustic look than they like in other places.
2 Other places, they like it to look very elegant. And
3 manufacturers in Chinese are very flexible, very
4 responsive to scraping it in a way that the customer
5 wants.

6 MR. GOETZL: Thank you for that answer. Two
7 more questions. First, a number of you had mentioned
8 sourcing product from Indonesia, Malaysia, and
9 Vietnam. Can you comment on whether that's -- are you
10 looking for different products that the Chinese are
11 not producing and the consumers want here? Or is that
12 a price driven shift or increase in your supplier
13 choices?

14 MR. PERRY: Let me just say one thing. As a
15 result of this petition, there's obviously an
16 expedited movement. I mean, that's the point. This
17 volume that they want, the domestics want by keeping
18 the Chinese out, they're not going to get, because
19 they're going to Indonesia, Malaysia, and elsewhere to
20 get it. That's what's driving them. And the way the
21 marketplace is, 150 days from the date that petition
22 was filed, the Commerce Department issues its
23 countervailing duty determination and importers of
24 record are liable. So, obviously, they're going to
25 move.

1 MR. LUDWIKOWSKI: Just on that point, I
2 think our position has been that it really depends on
3 the company, because some companies source certain
4 products that may not be available in those countries.
5 So, it really would depend on the particular company's
6 needs and the SKUs that they have.

7 MR. BOWEN: Again, this is Kevin Bowen with
8 Custom Service. Since I made the comment about
9 Indonesia, the uncertainty that's looming, you know,
10 when this came down a few weeks, you would sit down
11 and have a conversation about what do I expect; how do
12 I tell my customers what to expect. And if I don't
13 know -- if you guys can't give me some type of idea as
14 to what my product is going to cost me, when it lands
15 on March 21st, I can't order. So if I can't get
16 product ordered by January 15th this year out of Asia,
17 everything stops. So if everything stops, that means
18 I'm going to Indonesia and source it there. And,
19 again, what happened in China 10 years ago, Pete is
20 exactly right, it was archaic. There was old
21 equipment. It was not very good conditions. But,
22 they've been trained or they made -- they were
23 capitalists. They came in. They brought in good
24 German equipment. They trained their people. They
25 learned out to do it. And, hence, they've got great

1 production in China now.

2 So, we'll just have to redo that in
3 Indonesia or Malaysia or Vietnam or someplace there
4 where the raw materials are available. The market
5 just can't demand, what, a 242 percent increase. It's
6 not going to.

7 MR. HAMAR: My name is Jeff Hamar and our
8 first relationship with an Asian supplier was actually
9 with a company in Indonesia. And it was probably
10 2002, maybe 2003 at the latest, and that was the first
11 place that we went. And we continue to have a
12 relationship with that factory and they can make all
13 North American species. They can make all or many of
14 the South American species. So, they don't use any
15 Indonesian species, as the top core or top ply. It's
16 all American or South American. The price is very
17 competitive with Chinese-placed products and so
18 there's very little difference there. And because
19 Indonesian agreement -- trade agreement with the
20 United States, there's no duty actually on Indonesian
21 products. So, it's a working relationship right now
22 and we're happy with Indonesian products, as well as
23 South American products. We've been bringing products
24 in for probably almost a decade from South America.

25 MR. ELBRECHT: Let me say the American

1 hardwood market is uneasy because of the uncertainty
2 of the filing of this petition. Most of the people in
3 the hardware lumber business knows this has happened.
4 We don't know what's going to happen. They don't know
5 what the future is going to be. They're scared and
6 because of that, the prices of hardwood lumber are
7 starting to move down. I'm scared. I will ship my
8 last load of hickory lumber to China on November 15th.
9 Then I'll make flooring up until the Chinese New Years
10 and then I'll have to -- then I've got to figure out
11 where I'm going to go on February 15th. And if you hit
12 me with 200 percent, then I'm dead. And I try to be
13 very responsible in the way I make my product over
14 there. I know I'm not manufacturing that product
15 below cost. I know I'm being extremely responsible
16 and paying my Chinese manufacturer a fair price. I'm
17 not asking him to give me the lowest price. But if
18 you hit me with 200 percent, I'm dead.

19 MR. TRAIN: For us, we also -- we have some
20 products from other countries, as well, Brazil and
21 Indonesia, in particular. You know, actually, our
22 first contact with imported products or non-domestic
23 suppliers were actually the people that supplied our
24 U.S. factories. It's really the U.S. factories that
25 started the major amount of U.S. importation, you

1 know, of imported products. And as those
2 relationships strained or things changed, you know, a
3 lot of those guys started sourcing sales directly and
4 then also trying to work through any of the
5 consolidation issues that may have happened with the
6 U.S. suppliers all of a sudden cut off supply products
7 that we already had samples in the field and things
8 like that, that we had to, you know, meet those needs.

9 MR. GOETZL: Thank you. I appreciate all
10 those answers, very helpful. One last final question
11 and I will open it up to the panel, if anyone wants to
12 comment or not. Has the enactment of the Lacey Act
13 amendments affected the competitiveness of Chinese
14 versus American products in the American market?
15 Anyone care to comment on that?

16 MR. TRAIN: How much of that has affected
17 us, as far as the Lacey Act? I mean, I felt we
18 basically -- you know, when you visit a manufacturer,
19 you kind of know who you're dealing with. I mean, you
20 sit down for dinner. You walk the factory. You've
21 seen a lot of other places. You can see what they're
22 bringing in, what they're not. You get a good sense
23 of who you're dealing with right from the get go. And
24 I think all of us, you know, get the same -- you know,
25 kind of go through that same deal. And I think pretty

1 much every one of us at this table has a personal
2 stake in our own business and we take personal
3 responsibility on that. So converting over to the
4 Lacey Act was more of a clerical issue for us than
5 anything else. It was just trying to figure out the
6 steps that you needed to take. But, we didn't stop
7 working with any single factory we already had been
8 with. We didn't change any products that we were
9 already buying. So, it was really more of a -- you
10 know, I had to rework our purchasing department and
11 come up with a dedicated position that handled the
12 paperwork for that and the ISF forms and all that
13 stuff. But, really, it was more of a clerical issue
14 for us.

15 MR. NEELEY: I would just real briefly add
16 that, you know, the feedback that I got from my
17 clients, and I did work with them on the Lacey Act --
18 I mean, there was a lot of confusion, I think, on the
19 part of everybody when it first came into effect as to
20 what it meant. Once it sort of got sorted out as to
21 what it meant and what -- you know, what approach they
22 were taking with regard to the Lacey Act, it's, I
23 think, completely it's calmed down and it's just
24 become a working part of doing business.

25 MR. HUBBARD: I would just comment that we -

1 - as a result of the Lacey act, and I agree with
2 everything Jonathan said, but there is more due care
3 that is required for the suppliers of your suppliers
4 of your suppliers that we put in processes to go
5 beyond that from an audit standpoint, to ensure that
6 we're -- you know, they really want you to understand
7 your supply chain back to the stump. And so as a
8 result of the Lacey Act, we have put in additional
9 steps to do that with respect to audits and
10 identifying the suppliers of our suppliers, which we
11 had not done before.

12 MR. DOSSCHE: Piet Dossche with U.S. Floors.
13 I just want to say what Jonathan was saying a minute
14 ago, the Lacey Act has really not made any difference
15 for our company because the Chinese companies, they do
16 respond -- I mean, they're responsible. They take
17 this business very serious. They take this -- the
18 relationship that they have built with us very
19 serious. And it's a trust that we've built over the
20 years. I mean, it ends up being more than just a
21 supplier and a customer. And just like with the CARP
22 regulations in California for formaldehyde
23 requirements for the glue, again, this was seamless.
24 They accepted it. They modified. They did the right
25 thing. They spent the money on buying the correct

1 glues and making sure that they're in compliance. And
2 it hasn't created any hiccups.

3 MR. GOETZL: Anyone else?

4 MR. ELBRECHT: I hate the paperwork, but I
5 don't want to compete against somebody who has stolen
6 logs out of Bolivia or Russia or Missouri. So, why
7 would we want to compete against people who are
8 stealing logs?

9 MR. BOWEN: One more. Again, this is Kevin.
10 You know, those of us that have a financial stake in
11 this personal into what we do, we care about the
12 industry. We care about the business. That's the
13 reason we've innovated. This is the reason we put our
14 families future on the line to do this and that's the
15 reason we're here today. And if we didn't take our
16 customer seriously and if we didn't take our
17 relationships with our factories seriously, it may be
18 a different story. But, Lacey Act had almost no
19 impact on those of us who were doing things right in
20 the beginning.

21 MR. GOETZL: Thank you, very much, for all
22 of those answers. And with that, I'll turn the mic
23 over.

24 MS. DEFILIPPO: Thank you.

25 MR. GOETZL: Thank you.

1 MS. DEFILIPPO: I will now turn to Ms.
2 Martinez, see if she has any questions.

3 MS. MARTINEZ: Again, this is Keysha
4 Martinez from the Office of Investigations. I just
5 have a few questions and I may be jumping around a
6 little bit. The first one is a bit of an
7 administrative one. Mr. Elbrecht, I thought I heard
8 you mention that you had operations in China and I was
9 wondering if you filled out a foreign producer
10 questionnaire.

11 MR. PERRY: I saw it in just a group that he
12 submitted. So, it was a -- I'll tell you which
13 company is afterwards.

14 MR. ELBRECHT: I'm sorry, ask me that again,
15 please.

16 MR. PERRY: I'm glad I answered it. Your
17 company --

18 MR. ELBRECHT: He did a great job, didn't
19 he?

20 (Laughter.)

21 MS. MARTINEZ: Okay, thank you. My second
22 question is for Mr. Dossche. I know that you talked
23 extensively of unfinished product in your operations
24 and I was wondering, do they come in under the same
25 HTS number, unfinished and finished product?

1 MR. DOSSCHE: Yes, they do currently.

2 MS. MARTINEZ: They do?

3 MR. DOSSCHE: Yes.

4 MS. MARTINEZ: Thank you. And my next
5 question is, Mr. Alberton mentioned earlier that
6 American hardwood is preferred by the Chinese middle
7 class and I was just wondering how hard is it to
8 export to China, because I think the Petitioner stated
9 that the Chinese market is harder to penetrate. And
10 that's open to the panel.

11 MR. ELBRECHT: Our vision of how we see
12 China and what we see we would like to do in China is
13 we would start out -- of course, the U.S. market has
14 been importing -- has been shipping hardwood lumber to
15 China for years. It's become one of the growth
16 markets of U.S. hardwoods.

17 So, then, I think you move from -- you're
18 always wanting to move in the direction of value
19 added, how can you bring value back to the United
20 States; how can you create efficiency. So, then, you
21 can take step number one, what might step number one
22 be. So, you can make your dimension product. So
23 instead of shipping -- instead of your cost -- well,
24 I'll give you an example. If I shipped a log to
25 China, my freight would be about a dollar a foot. If

1 I shipped lumber to China, my cost would be about 30
2 cents a foot. If I make that into a piece of
3 dimension and I ship that dimension piece to China, my
4 cost would be about 20 cents a foot. If I can make a
5 saw cut veneer and I can ship the saw cut veneer to
6 China, I can put probably 40 -- I can put 3,000 feet
7 of logs in a container; I can put 40,000 feet of saw
8 cut veneer in a container and my cost is about -- my
9 cost of freight is about five percent. So in terms of
10 where do I see myself -- what's my vision for the
11 future, if the market remains free, that's my vision.

12 MS. MARTINEZ: So you're saying that you
13 would export all of the different components and then
14 assemble in China? Is that the idea -- am I
15 understanding that correctly?

16 MR. ELBRECHT: Our factory is new. Our
17 factory is brand new. And because our factory is
18 brand new, at this point, we're at step number one.
19 Step number one is moving from shipping the lumber,
20 which we do now, to shipping the components. So we're
21 at step number one. The next steps are down the road.

22 MS. MARTINEZ: Okay. Thank you, very much.

23 MR. TRAIN: This is Jonathan Train. The
24 question also is it's difficult to penetrate the
25 Chinese market. And from my understanding of that

1 market, to penetrate that market, you can't go through
2 a distribution network. You really need a brand name
3 with a number of stores out there to sell to them.
4 But, I think just like selling into any country -- you
5 know, we do a lot of sales to other countries, as
6 well, not necessarily in the hardwood flooring
7 category, but in another flooring categories, and it's
8 like anything else, you need a good partner to work
9 with that knows that particular market. And so, you
10 know, but to penetrate the Chinese market, you need a
11 lot of advertising to promote your brand and your
12 store and to set up those, you know, brick and mortar
13 stores.

14 MS. MARTINEZ: Thank you.

15 MR. ELBRECHT: Let me add this, my partner
16 in China, he wants -- he wrote me not long ago, he
17 wants pictures of America. He wants pictures of the
18 Ozarks. He wants pictures of our flooring mill.
19 That's a big selling point to him, in this emerging
20 middle class, American hardwoods coming from America.
21 When he came back here, we have a log cabin on our
22 farm, which is the original log cabin when my wife's
23 family came, and he wants me to ship a log cabin to
24 him. So, he is marketing the idea of American
25 hardwoods. That's what he's trying to present to this

1 emerging Chinese market.

2 MR. HUBBARD: I would make one comment on
3 that. The largest retailer of flooring in China is a
4 company called Power Dekor. They've been mentioned
5 here already today by Anderson because Anderson has a
6 technology share with them in China for branding and
7 the like. And they're a manufacturer and that's a
8 unique business model. It's a different way to
9 distribute -- take product to the retailers in the
10 United States. But they're the largest flooring
11 manufacturer in China and they also have 2,000 retail
12 stores, not all company owned. There's a blend
13 between company owned and franchising stores, as
14 opposed to our two step -- our more traditional two
15 step or one step, which is manufacture to distributor
16 to retailer, or manufacturer direct to retailer, where
17 manufacturers do not own any retail stores or use
18 their own brand in that way. So, if that helps any.

19 MR. ELBRECHT: Let me tell you what I'm
20 really scared about. I'm really scared about if we
21 put stiff tariffs on product coming back to the United
22 States, the Chinese will put 100 percent tariff on our
23 product going into China and then I'm cooked.

24 MS. MARTINEZ: Thank you, very much, for
25 your answers.

1 MS. DEFILIPPO: Thank you, Ms. Martinez.
2 We'll now turn to Mr. Fishberg.

3 MR. FISHBERG: Good afternoon. For the
4 record, again, David Fishberg, Office of the General
5 Counsel. I'd like to thank this panel for your
6 testimony today. A few legal niceties here out of the
7 way. I've heard this issue sort of discussed a little
8 bit, but just to put it to you directly, mainly to the
9 attorneys here, my first question is do you agree with
10 the Petitioners that the Commission should find one
11 domestic like product with the scope? And, again, you
12 can respond as much as you'd like here and then put a
13 fuller argument in your briefs.

14 MR. PERRY: My response would be not
15 necessarily and I'll be taking a look at that in the
16 brief.

17 MR. LUDWIKOWSKI: Likewise, we'll address it
18 in the brief.

19 MR. FISHBERG: Okay. Well, if you disagree,
20 then we'd like to know what you believe should be
21 included in the domestic like product and please
22 address that using the traditional factors that the
23 Commission examines.

24 Another issue we have is, I guess, please
25 provide also in your briefs any related party

1 arguments. I know you heard from the panels this
2 morning about imports and relationships. So, if
3 you're going to make any arguments about excluding any
4 parties based on the related party, please provide
5 that in your brief, as well.

6 MR. ROGERS: Mr. Fishberg, this is Tom
7 Rogers. I might add that, as everybody seems to be
8 aware of, that it's going to be difficult to make that
9 argument with respect to several producers who haven't
10 provided questionnaires.

11 MR. FISHBERG: Okay. I asked this of the
12 Petitioners this morning. I've heard a lot from this
13 panel, as well, about the conditions of competition
14 that the Commission should be considering. If you
15 could put it in the briefs, I know you stated here,
16 sort of the rise of the big box stores. I guess I'd
17 call it, I don't know, putting a legal spin on it,
18 maybe the attenuation of competition arguments about
19 serving the different markets. If you could elaborate
20 on that in your briefs, that would be helpful. You
21 can provide any discussion -- any more discussion you
22 want now, as well; but in your briefs, it would be
23 helpful, as well.

24 I understand the point about the non-
25 subjects and the uncertainty in the market that the

1 petition has created. But during the period, I was
2 wondering sort of what markets, you know, assuming we
3 have the -- our replacement market and the new home
4 market, what markets were the sort of non-subject
5 imports in? Were they more heavily in the replacement
6 market as subject imports or were they also in the new
7 home market? Anyone have any thoughts on that?

8 MR. HUBBARD: When you say "non-subject
9 imports," you're talking --

10 MR. FISHBERG: Any non-U.S., non-Chinese, so
11 any other country's imports, the Indonesian product or
12 Canadian product.

13 MR. PERRY: All I can say was I noticed with
14 one of my -- and I won't go into a little ways because
15 I have multiple clients, but I saw imports from non-
16 subject going down, while subject imports were going
17 up. So, I think you're going to see some of the same
18 areas.

19 MR. FISHBERG: Well, I know the testimony
20 this afternoon was sort of the Petitioners decided or
21 sort of cast their stone with the independent
22 retailers and didn't decide to -- couldn't see far
23 enough in the future to go with the big boxed stores.
24 And I was just wondering again, for the non-subject
25 imports, if they had been declining, as well, did they

1 cast their rod, as well, with independent retailers or
2 did they also have the foresight to see the big boxed
3 stores?

4 MR. PERRY: Well, I think, again, it's the
5 point I made to Mr. Fetzner before, I think you're
6 assuming the non-subject imports and the Chinese
7 imports are targeting certain segments. I don't think
8 that's what's going on here at all. What's going on
9 at all is lumber liquidators and the big boxed stores
10 and the consumers are demanding choices. So if the
11 choices can't come from China, they're going to come
12 from somewhere else, especially if the U.S. industry
13 refuses to supply, which, in some cases, that's
14 exactly their position, and they won't supply certain
15 types. So, they're coming for some more. These
16 exotic woods, many of them come from Indonesia,
17 Malaysia, Brazil. So what's going to happen is you're
18 just going to have a shift, a movement.

19 MR. LUDWIKOWSKI: Mr. Fishberg, just to
20 answer your question in a little bit more detail, I
21 think the non-subject imports are probably more
22 centered around the remodeling, the use self center,
23 because of the variety of different species that are
24 coming in and those are not the more generic, the more
25 basic species used in the home builder's market.

1 MR. FISHBERG: Okay.

2 MR. HAMAR: Mr. Fishberg, our experience has
3 been that non-subject companies are actually
4 increasing their business with us this year. And the
5 one that's most interesting is Canada, which they
6 mentioned was an average selling price of over four
7 dollars a square foot, which is probably higher than
8 the square foot selling price in the United States.
9 We've actually seen sales increases in that product
10 category this year from our primary Canadian supplier.
11 I think some of it's because there's been somewhat of
12 a decline in demand on the hand-scraped floors in
13 California and Arizona and this company does not make
14 hand-scraped flooring. They make just smooth sand
15 product. But, also, they're a very high-quality
16 manufacturer and a very high perceived value. And
17 we've actually seen some up tick in activity in the
18 higher end, as that market has started to come back a
19 little bit. I mean, this is just like three and four
20 million dollar houses. There seems to be a little bit
21 more activity in that segment and that product is
22 doing well. So, it can't be argued that China is
23 taking business from everybody because that certainly
24 is not the case with us in California, which is
25 probably the area of the country that has been by far

1 the most impacted by Chinese imported products.

2 MR. FISHBERG: Sort of what I think and you
3 can tell me if I'm wrong here, what I'm hearing this
4 afternoon is that a combination of there's different
5 species of product that for whatever reason the U.S. -
6 - the domestic companies aren't using; that there have
7 been innovations, again for whatever reason, the
8 domestic producers haven't been as quick to realize or
9 market. And I'm sure we'll hear from the Petitioners
10 in their post-conference briefs about those issues.
11 But what I was wondering is that, okay, let's say
12 there was a duty put in place here, I think what I'm
13 hearing from this panel is that that will only benefit
14 non-subjects, in that they will be the ones who will
15 then come in and they have not only the species, but
16 also they have the innovative abilities to gain
17 whatever market share that will be lost. Is that --

18 MR. PERRY: You can look at wooden bedroom
19 furniture. This is exactly what happened. You may know
20 that case and what happened was the companies moved to
21 Vietnam. So that's just what's going to happen,
22 you're going to have a huge movement to other
23 countries.

24 MR. TRAIN: Those non-subject countries are
25 already in the process. That's already been going in

1 that direction.

2 MR. FISHBERG: Okay.

3 MR. LUDWIKOWSKI: Mr. Fishberg, just to add
4 to your point, the Petitioners, I believe they made
5 very clear this morning that they're not interested in
6 producing using those species. I think that question
7 came up a little earlier. And there are species that
8 are also being sourced out of non-subject countries.

9 MR. FISHBERG: I mean, I understand the
10 points. To try to, I guess, quantify, put numbers
11 there, where, you know, okay, there are certain
12 different species that the domestics aren't producing
13 and there's also certain innovative products that the
14 domestics aren't producing or haven't produced en
15 masse, as quickly as the imports. Again, what I'm
16 hearing is the imports have come in to service that to
17 some degree. There's a demand for that, that the U.S.
18 is not supplying. To the best that you can, in your
19 post-conference brief, can you provide, again,
20 percentages of your products or shipments that are
21 either a species that the U.S. is not producing or of
22 a product type that the U.S. is not producing or
23 unwilling to produce? That, I think, would be helpful
24 to sort of quantify these arguments. And if there is
25 any overlap between the two, it would be --

1 MR. BOWEN: So if the Commission was going
2 to say, okay, we're going to penalize only the species
3 that the big three here want to product, you're going
4 to end up -- and those are all you put duties on and
5 you ignore all the other species that are out there,
6 sounds like a nice problem, except for what you're
7 going to hurt is you're going to hurt Clyde and the
8 people that are selling American hardwoods all around
9 the world and exporting it. And it's going to make it
10 more difficult for us to sell a customer. I mean, one
11 of the liquidators carries everything. They aren't
12 going to turn around and buy one or two SKUs from
13 somebody and everything else from everybody else.
14 It's not going to work that way. You can't -- you're
15 going to have trouble excluding just the oak, the red
16 oak product and the hickory. That's just what it is.

17 MR. FISHBERG: We find whether or not
18 there's injury. So, I think what I get what I'm
19 hearing here is sort of more of an -- there's an
20 attenuation of competition here that, you know,
21 whatever the price the Chinese product is coming in
22 at, it's not affecting the domestics because you're
23 competing in different areas. So to quantify that and
24 to ask you, you know, be able to have numbers or --
25 again, I understand your testimony. But, it would be

1 helpful for us to be able to put products and
2 percentages, so that we can, you know, sort of we can
3 rely on that potentially in the report. Again, as I
4 said, that would be helpful, again, just sort of
5 quantify the argument that you're making before the
6 Commission.

7 MR. NEELEY: And, again, just to reiterate
8 what I said before, and I'm sure they'll be able to do
9 that, but you see that attenuation in the bigger
10 picture in the numbers, I think. I think you'll see
11 that. I mean, you'll see imports rising at the same
12 time that you would expect perhaps be going down. It
13 doesn't seem to be happening. So, you know, let's
14 bear in mind the big picture here, Tim.

15 MR. FISHBERG: I also know -- you know, I
16 know you'll -- and I've heard people pointing out the
17 faults in the Catalina report and I'm sure you'll do
18 that more in your post-conference briefs. One thing
19 I'm wondering about, in that report, as faulty as it
20 might be, we'll see, it does show that the average
21 unit values of the multilayered wood flooring from
22 China is substantially lower than the AUVs that are
23 domestic product. Can you explain that? Is there
24 anything inherent in the Chinese product that would
25 make it lower?

1 MR. SZAMOSSZEGI: Andrew Szamosszegi from
2 Capital Trade. Two things and I'm going to mention
3 one. I think Clint has another reason. We were
4 actually able to duplicate the Catalina numbers with
5 U.S. HTS codes and it's kind of a mess and we'll deal
6 with it post-conference. But, we were able to
7 duplicate it and we know that bamboo is in there and
8 bamboo is a cheaper product. And so that's part of
9 the reason why the Chinese AUVs are lower. It's a
10 product mix issue.

11 MR. HUBBARD: Clint Hubbard, Home Legend.
12 In addition, a huge growth in printer products, like
13 these three-eighths are going back to, you know, a
14 lower cost, better value to the consumer. This is a
15 new emerging category. This is the plant that Shaw
16 just built and, you know, traditional engineered woods
17 are five layers. So when you have a five-eighths or
18 half inch and thick or more, which are required.

19 MR. TRAIN: I'd also like to answer that, as
20 well. This is Jonathan Train. Just for us in the HDF
21 core product, that's grown from zero to 10 percent of
22 our wood flooring sales just in the last year, year-
23 and-a-half. So that is a -- that product was
24 engineered, not to be confused with things, you know -
25 - but it was engineered to be a lower-cost product;

1 not because stumping, it's just because it's built
2 with different components.

3 I think the other thing that has happened is
4 there's consumers, they're buying Fords not Cadillacs
5 right now. So, when you take the average price, it's
6 going to be lower. And we have done things and I
7 think all of us have done things specifically to
8 change the price points of a product. So, I mean,
9 something that was a full two, 2.2 millimeter veneer,
10 we've shaved that down to 1.7 because to the consumer,
11 that's fine. And I think all of us have done
12 different -- the movement from some of the birch cores
13 to over the Eucalyptus, a variety of things have been
14 done in order to bring our consumers a product and a
15 price they can still afford and that, I think, impacts
16 the numbers a lot.

17 MR. FISHBERG: Also, would you agree with, I
18 guess, Petitioners' statements this morning about the
19 contracting cost -- the contracting process, that most
20 of the sales are made on a spot basis and if so,
21 again, I would just like to hear your take on sort of
22 the transparency in the market? Do suppliers often --
23 not suppliers, purchasers often able to switch
24 suppliers relatively quickly in the market or is there
25 sort of you stick with one for a while? What is your

1 take on that?

2 MR. HUBBARD: Yes, it depends on the
3 segment. And with an independent retailer, it's
4 typically spot bases. An independent retailer puts in
5 a Mannington display or Home Legend display in their
6 store and the consumer comes in and purchases that
7 product and they order the product from us and it's
8 delivered to the consumer. So, we -- and we have the
9 ability to change our pricing at any time. Many of
10 the Petitioners do a lot of business with the big
11 builders. Generally, when you're doing business with
12 big builders, you do have to guarantee pricing for a
13 period of time, six months to a year. When you put in
14 a program and they're doing a subdivision and you put
15 the samples in the model home and the consumer can go
16 in and select their products, you know, that builder
17 has guaranteed pricing for a period of time.

18 When you're doing business with big boxes,
19 generally, you know, a launch of a new collection,
20 let's say, is a big ordeal. You've got 2,000 stores
21 that you're going to replace samples in and put new
22 fixtures and displays and POP and uploading and
23 computers and it's something that, you know, they
24 intend to leave in a store for two, three, four, even
25 up to five years once they do a significant launch

1 like that and we have guarantees. Minimal guarantee
2 of a price on a new program at a big box store is
3 generally one year. So, independents, you know, you
4 can change your prices pretty much, on a dime, if you
5 have to. If you're doing business with a big box,
6 you've got to guarantee them a year and builders, too.
7 I hope that answers your question.

8 MR. FISHBERG: It does.

9 MR. JAKOB: From a liquidator's perspective,
10 when we bless a product to go into our organization
11 from a quality standpoint and a sourcing standpoint,
12 obviously, there's certain matrices that we want to
13 see that product perform to over a period of time. As
14 Clint mentioned, it's quite a cost of getting a
15 product launched and getting it out to -- we're not
16 2,000; we're only 216 -- but getting it out to 216
17 stores, putting it on the web, putting it in catalogs,
18 putting it in print, there is a life cycle. So, it
19 does extend itself to a longer period of time.

20 MR. FISHBERG: Again, for the attorneys, in
21 your post-conference brief, can you just please
22 address the factors that the Commission evaluates in
23 making a threat of material injury determination?
24 That would be helpful. And Mr. Neeley, I guess,
25 here's your opportunity to discuss demand trends in

1 China. If you can supply us with any data that you
2 have, in terms of demand versus consumption and
3 production in China, that would probably be helpful.

4 MR. NEELEY: We'll be glad to do that.

5 MR. FISHBERG: Over the POI, as well, if
6 there are any projections --

7 MR. NEELEY: Okay.

8 MR. FISHBERG: -- for this industry, that
9 would be helpful. And those are all the questions.
10 I'd like to thank you for your time today and it was
11 very informative. Thank you.

12 MS. DEFILIPPO: Thank you, Mr. Fishberg.

13 MR. McClure, any questions from you for this panel?

14 MR. MCCLURE: Jim McClure, Office of
15 Investigations. The hour is late. Our stomachs are
16 growling. If I ask questions, you'll all be howling.
17 So, with that, I have no questions. I would like to
18 thank the panel. Both panels have been
19 extraordinarily informative. We've learned a lot.
20 And this is one of the best ways we can do our
21 business, in addition to you guys answering your
22 questionnaires, which I assume are all in, is to sit
23 down and talk with the people, who actually do the
24 business. And, in particular, a welcome to my fellow
25 Missourian, Mr. Elbrecht. I had a roommate from West

1 Plains at the University of Missouri, drank himself
2 out of college in one semester.

3 (Laughter.)

4 MS. DEFILIPPO: Well, that's a hard one to
5 follow. I actually also thank you because I'm looking
6 at my sheet and every time I would write a new
7 question, David would ask it or someone else would ask
8 it. I guess I just would like to reiterate for sort
9 of post-conference. It started, you know, as we were
10 listening to testimony and thinking when Mr. Rogers
11 was referring to the 332 and talked about other
12 factors outweighing price and I think Mr. Train just
13 sort of tied that together for me, in terms of this is
14 a different economy than then. So, I think if you
15 were to do that survey now, it might be a different
16 one. But, it took a while for price to come up into
17 the conversation, what I was talking about, well, we
18 can't get what we need from the domestics, so we had
19 to go to imports, but then when you say, well, we're
20 going to have to go somewhere if the price goes up by
21 the margin. So, I'm having a hard time sorting
22 through your -- how much is really price related --
23 how much is price playing in this versus the it's a
24 different species or it's a different technology. And
25 so, Mr. Fishberg's question on that, to the extent you

1 can really flush that out on where there is overlap
2 and what product is coming from China that is actually
3 available here and what is not either a species or a
4 completely different technology that is not made here,
5 to the extent that any numbers can be put on that and
6 tying that into sort of where price does play in this
7 case. I do think, especially in this economy, that it
8 probably is playing a role that didn't come out as
9 much as I thought.

10 So, I have no additional questions. I'm
11 going to look and give the evil eye because I know
12 everyone is getting tired. So, I'm not going to even
13 ask if you guys have other questions. I will dismiss
14 this panel and I will say thank you, very much. We
15 did learn a lot.

16 The way we go now is each side gets a 10
17 minute for closing statement. I'm going to ask, if
18 you're okay, to just go right into it, as opposed to
19 taking a break. I think people probably have flights
20 to catch and so I would -- okay, great. So then if we
21 could dismiss this panel and bring up Mr. Levin for
22 his closing statements and then we'll follow right
23 after that with Respondents.

24 (Panel is dismissed.)

25 MS. DEFILIPPO: Just please proceed whenever

1 you're ready and welcome back to the table.

2 MR. LEVIN: Thank you. It's good to be back
3 at the table. I'm sure the table missed me. Thank
4 you. I don't think I'll need 10 minutes and I don't
5 really plan on going in any particular logical order.
6 I just want to address a few points, make one or two
7 prefatory remarks.

8 First of all, as I had passed on to Mr.
9 McClure, Commerce has initiated today on the dumping
10 side and on the CVD side and I'm getting word from
11 Commerce that the estimated dumping margin for the
12 notice of initiation is an average of 237 percent. I
13 don't have information on the particulars on the CVD
14 programs.

15 Second of all, I surely invite Respondents
16 to spend as much time in their post-conference brief
17 discussing whether or U.S. Floors is a manufacturer.
18 We're probably beyond that issue at this point, but
19 I'm more than happy if they want to spend 10 or 15
20 pages talking about U.S. Floors.

21 Third of all, I'm very glad -- Petitioners
22 are always happy to hear when Respondents panel seems
23 to agree that the quality of the subject merchandise
24 is very good. That's surely what I hear from the
25 domestic manufacturers. So there really doesn't seem

1 to be any qualitative differences that are coming into
2 play here. It's always nice to get that particular
3 classical line of response out of the way early on.

4 But the other classical -- I'm being
5 euphemistic here -- the other line of argument that we
6 often here on Respondent side, especially in
7 preliminary investigations, is the market segmentation
8 thing. And I'm going to have to read the transcript
9 because as the day went on, sometimes you fade in and
10 out. But, I seem to hear two different things and
11 perhaps not a uniform agreement among the many
12 witnesses on the Respondent panels about exactly what
13 market segmentation argument they are presenting. On
14 the one hand, I heard home builders versus remodeling.
15 On the other hand, I heard, well, that's not really
16 it. It's more big box versus independent retailers.
17 I'm very interested to see after the fact by reading
18 their post-conference briefs whether or not they end
19 up on agreement of what their argument is going to be
20 on that issue or whether or not there are varying
21 market segmentations that independent people are
22 seeing on this.

23 In any case, we don't see a market
24 segmentation issue. That's just not true. To the
25 extent that the imports may be to some more extent

1 than domestic product going to the replacement market,
2 it's because of price. One of the petitioning
3 companies has said that they have tried over and over
4 again to sell to the home centers and they just can't
5 meet the price points that the home centers are
6 demanding at this point. They used the expression
7 that the domestic guys, and I think they mean
8 Mannington by name, has refused to sell to the home
9 centers. Now, that may be true, but only to the
10 extent that the term "refuse to sell" means that the
11 domestic manufacturers can drive down their prices so
12 low as to drive themselves out of business, then
13 perhaps that would mean refuse to sell. In any case,
14 we heard a lot from lumber liquidators and their
15 marketing official. But I'm looking at the quote here
16 from the Goldman Sachs global retail conference, "over
17 the last few years, we've seen a shift in product
18 sourcing -- shift in product sourcing from domestic
19 from Europe to more China." Shift implies something,
20 at least that's the way I'm reading it.

21 I, also, heard that the economy is the sole
22 cause of whatever injury maybe being suffered by the
23 domestic industry. I find that unfathomable on its
24 face. If I'm reading that correctly, if I'm hearing
25 that correctly, the claim is being made that China

1 imports are having absolutely no impact on the U.S.
2 market. I'd love to hear more about that in their
3 post-conference brief.

4 Another thing about click-and-lock. I'm not
5 an engineer and all of that sort of fun stuff, I'm not
6 even that much of an aesthetics guy. But, I was given
7 a note, actually, click-in-lock was invented here in
8 the United States by Unilin and by -- there's another
9 company and I'll pass that on, not a manufacturer, but
10 a technical engineering company. So if the claim is
11 that the domestic manufacturers have been losing out,
12 that they missed the boat, actually, they invented the
13 boat.

14 One or two other points. I have no more
15 desire to go through import statistics today than you
16 do and, obviously, it's going to be a big subject in
17 the post-conference brief. I'm just going to make two
18 basic points and then I'll leave it for now. First of
19 all, a lot of nice charts and data mind and we matched
20 everything up and all of that sort of stuff. But in
21 the end, I haven't seen anything that has been
22 positive to be any more accurate than the Carolina
23 report. After all, they're notching up of, you know,
24 HTS and all of the costs referencing that they did on
25 the charts that we received. That's really nice. You

1 still end up on with -- on that chart a billion square
2 feet of imports of multilayered wood flooring in the
3 interim 2010 period. So, in my mind, I'm not sure
4 that that's really getting any more accurate than the
5 Carolina report is. Like I said, that will be a big
6 subject for the post-conference brief.

7 A quick word about substitutability. The
8 remark was made that, you know what, the consumer has
9 before him or her at this point is a decision whether
10 to use their money for this or this or this or this
11 and trying to throw anything that gets put on a floor
12 as a possible alternative to wood flooring, engineered
13 multilayered wood flooring for terms of
14 substitutability, as the Commission needs to examine
15 that issue in its analysis and investigation. If you
16 extend that logic, then wood flooring could be
17 considered a substitute for a refrigerator or a new
18 car or an I-Pad or whatever have you. You just can't
19 cast your net that wide -- or a new puppy, for that
20 matter.

21 Two last points. First of all on the
22 cloning thing. The way it was represented here is
23 missing the point a little bit. To some extent, yes,
24 it is about interchangeability. But to a much larger
25 extent and the reason it's put forth in the petition

1 is that that is a reason why Chinese manufacturers are
2 able to sell here, one of many reasons, at such low
3 prices. The fact that they can skip over the enormous
4 trial and error expense of figuring out what aesthetic
5 designs and innovations are going to be make it and
6 what won't, that's a huge cost saving.

7 Last point, at the end, I heard a lot of
8 pleas to the heart and saying that, you know, if this
9 case goes forward, then the Chinese manufacturers are
10 just going to move to Indonesia or Vietnam. First of
11 all, if the case goes forward, if deposit rates go
12 into effect, that means there's been a preliminary
13 determination of unfair trading. You want to keep the
14 stuff in China, eliminate the unfair trading. That's
15 all we're looking for.

16 Second of all, quite honestly, and even
17 according to a Bratsk analysis, whether or not a
18 manufacturer ends up moving to Indonesia or Vietnam or
19 Philippines or anyplace else is irrelevant to the
20 Commission's analysis, as a legal matter under a
21 Bratsk analysis. And with that, I thank you for the
22 additional time and thank you for your day spent.

23 MS. DEFILIPPO: Thank you, very much, Mr.
24 Levin. We will now do closing statements for
25 Respondents. And while you are walking up, a couple

1 of things that have been given to us, do you want that
2 included and marked as exhibits and put into the
3 transcript?

4 MR. LUDWIKOWSKI: Yes; the ads, yes.

5 MS. DEFILIPPO: We'll do that then.

6 Gentlemen, please proceed when you're ready.

7 MR. LUDWIKOWSKI: Thank you, Ms. DeFilippo
8 and Commission staff. Petitioners are trying to
9 divert the point that the economy actually had a
10 contribution to the economic situation -- their
11 financial situation. And it certainly is not the only
12 reason for it, but it is intertwined with the growth
13 in the big box and the remodeling sector. What is
14 telling is Mr. Levin asked that we clarify whether or
15 not segmentation is occurring in those areas. What
16 big box and remodeling share is that they're not the
17 builder's market. It's basically the thing that they
18 have in common. Petitioners have agreed, we can see
19 this through their financial statements, that the
20 builder's market was primarily responsible for some of
21 their losses in the last few years. This was evident
22 in Shaw's financial statements. They referred to the
23 tax breaks that they were offered in the last few
24 years as also contributing to the shift -- to their
25 loss in the builder's market share.

1 The other point the Petitioners have made is
2 the sales -- that they were not able to sell to the
3 big box stores. There are two major producers that we
4 have not seen here today that have been sort of in the
5 backseat in this case and that we are aware that they
6 do sell to the big box stores. What is telling is
7 they're not participating. It is possibly that they
8 do not believe that this case is worthwhile pursuing.

9 The other factor that we would like to touch
10 on is the import data. We agree with Petitioners that
11 it is a morass. There are certainly some HTS's that
12 need to be ironed out and the 2008 changes to the HTS
13 are relevant, in that we saw a spike in the year
14 immediately following those changes, which may be out
15 of line with what really has happened in the market.
16 There was an increase in reporting, but not
17 necessarily in the imports, themselves. So with that,
18 I'll pass it on to the other gentlemen.

19 MR. PERRY: I have just a couple of
20 comments. One was the comment made that really they
21 couldn't sell to the big box, the retailers, because
22 of price. Now, this was a business strategy. As Jeff
23 Hamar said of Galleher, this was a decision by many of
24 these guys not to sell to the big box guys because
25 other distribution channels. They had different

1 distribution channels. They didn't want to sell to
2 the big box guys. And, also, they missed the shift in
3 the market. As Kevin was saying, Kevin Bowen, that
4 the point was we saw it coming. We knew that there
5 was going to be a housing crisis. It was going to hit
6 the new housing. We told our guys, you've got to
7 move. What were they moving to? The remodeling.
8 That means big boxes. That means selling to them.
9 But these companies over here, they decided not to do
10 that. They made that specific decision not to sell
11 into that segment of the market.

12 Click-and-lock, again, they said it was only
13 10 percent. Kevin told me it's 90 percent of my
14 business. It's a huge part of the business. They,
15 again, decided not to go in there because that's
16 remodeling. That's do-it-yourself. They want to go
17 their own distribution channels. So this is, again, a
18 strategic decision they made. Everything is invented
19 in the United States now. I understand that, in fact,
20 click-and-lock may have come from the Europeans.
21 We'll know more about that later.

22 The whole thing of cloning and that
23 basically everything is cloning and that they missed
24 the trial and error and we do it. What the domestics
25 want to do is here are our selection, take it. What

1 happens is the importers are working with the big box
2 companies, with their customers, with architects, with
3 designers, coming up with alternatives. And it's
4 because of that creative process, that you don't have
5 to do as much trial and error because you know what
6 the consumer wants. That's a key point. You're
7 trying to find out what the consumer wants and then
8 supply it to him and that's what the big box companies
9 are trying to do.

10 Finally, Bratsk, the point is, we're not
11 saying Chinese companies are moving to Indonesia.
12 We're saying Indonesian companies are already there
13 producing wood flooring. That's the point, Malaysian
14 companies, Brazilian companies, Indonesian companies -
15 - 332 report had this down there, too. They were the
16 biggest suppliers. These exotic woods are coming out
17 of Indonesian companies, some of which don't like the
18 Chinese. But, it's because exotic woods are right
19 there, so they're shipping them. So, that's where
20 this is going to go. Jeff?

21 MR. NEELEY: I'll leave it to my colleagues
22 to sort out exactly how the market segmentation works.
23 They're in the industry and we're in China. But, I
24 will say this, that if this case had been brought in
25 2009, they might have been able -- the domestic

1 industry might have been able to mask the lack of
2 causation by the incredible decline that happened in
3 2009, as we all know. Having brought this in 2010, I
4 don't think it can be masked because what you're now
5 seeing is continued -- or renewed increase in Chinese
6 imports, at the same time that you're seeing the U.S.
7 industry doing well or relatively well. And so if
8 that's the trend that you're seeing, if you're seeing
9 that there's no causal link there, well, it might have
10 been masked in 2009. It's not masked anymore.

11 The other point I would make is with regard
12 to the data. Perhaps Mr. Levin misunderstood how we
13 were using the data that we presented, but what we're
14 -- we're not saying use the data that Barnes,
15 Richardson & Colburn came up with; we were trying to
16 replicate what you guys had done in your 332. But, we
17 think that what it shows quite clearly is that using
18 slight different assumptions, and we think actually
19 more accurate assumptions, you come up with completely
20 different trends with regard to the imports. What
21 that leaves you with is a conclusion, which I think is
22 overwhelming, that the Catalina report is pretty much
23 worthless for this investigation. So, you've got to
24 come up with something else. Perhaps there's some
25 other report, some other information out there that

1 I'm not aware of at the moment, but what I can say
2 right now is that it looks like what you're left with
3 is your own questionnaire responses and to make
4 conclusions, at least for this preliminary
5 determination, based on those. And we will brief that
6 in detail because it seems to me that what you've
7 started with is a bunch of assumptions by the
8 Petitioner that just simply do not hold up with regard
9 to import data and a bunch of assumptions that don't
10 hold up with regard to causal link. Thank you.

11 MS. DEFILIPPO: Than you, very much,
12 gentlemen. On behalf of the Commission and the staff,
13 I would like to thank all the witnesses, who came here
14 today, as well as counsel for helping us gain a better
15 understanding of this product and the conditions of
16 competition in this industry. Before concluding,
17 please let me mention a few dates to keep in mind.
18 The deadline for the submission of corrections to the
19 transcript and for submission of briefs in these
20 investigations is Tuesday, November 16th. If briefs
21 contain business proprietary information, a public
22 version is due on November 17th. The Commission has
23 tentatively scheduled its vote on these investigations
24 for December 3rd. It will report its determinations to
25 the Secretary of Commerce on December 6th and

1 Commissioner's opinions will be transmitted to
2 Commerce on December 13th.

3 It's been a very long day and, again, I
4 thank you all for coming and presenting testimony.
5 With that, this conference is adjourned.

6 (Whereupon, at 3:57 p.m., the preliminary
7 conference was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: MultiLayered Wood Flooring from China

INVESTIGATION NOS.: 701-TA-476 and 731-TA-1179

HEARING DATE: November 12, 2010

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: November 12, 2010

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