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Countervailing Duty Orders:

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Countervailing Duty Orders:

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P R O C E E D I N G S

(9:33 a.m.)

1  
2  
3 CHAIRMAN WILLIAMSON: Good morning. On  
4 behalf of the U.S. International Trade Commission, I  
5 welcome you to this hearing on Investigation Nos.  
6 701-TA-490 and 731-TA-1204 (Final) involving Hardwood  
7 Plywood From China.

8 The purpose of these investigations is to  
9 determine whether an industry in the United States is  
10 materially injured or threatened with material injury  
11 or the establishment of an industry in the U.S. is  
12 materially retarded by reason of subsidized imports  
13 from China of hardwood plywood.

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

20 All witnesses must be sworn in by the  
21 Secretary before presenting testimony. I understand  
22 that the parties are aware of the time allocations.  
23 Any questions regarding the time allocations should be  
24 directed to the Secretary.

25 Speakers are reminded not to refer to

1 business proprietary information in their remarks or  
2 answers to questions. Please speak clearly into the  
3 microphone and state your name for the record for the  
4 benefit of the court reporter. Finally, if you will  
5 be submitting documents that contain information you  
6 wish classified as business confidential, your  
7 requests should comply with Commission Rule 201.6.

8 Madam Secretary, are there any preliminary  
9 matters?

10 MS. BARTON: Yes, Mr. Chairman. All the  
11 witnesses have been sworn.

12 (Witnesses sworn.)

13 MS. BARTON: And with your permission, we  
14 would like to add Mr. Mike Taylor of States Industries  
15 to the witness list for Petitioners.

16 CHAIRMAN WILLIAMSON: Okay. Thank you.  
17 Very well. Will you please announce our first  
18 congressional witness?

19 MS. BARTON: Yes, Mr. Chairman. The  
20 Honorable Peter A. DeFazio, U.S. Representative, 4th  
21 District of Oregon.

22 CHAIRMAN WILLIAMSON: Okay. Welcome,  
23 Congressman DeFazio. You may begin when you're ready.

24 MR. DeFAZIO: Thank you. Appreciate the  
25 opportunity to address you today before you make your

1 final decision. I'm very hopeful that you will uphold  
2 the judgment reached after considerable investigation  
3 by Commerce.

4 I do come here as one who represents a very  
5 substantial lumber and plywood industry in my state.  
6 About half of the plywood manufactured in the U.S.  
7 comes from my district. Five of the Petitioners have  
8 at least one plant in my state and four are  
9 headquartered there.

10 This industry has been decimated. Now,  
11 there's some who would say well, it was really the  
12 recession that caused the change in the industry. No.

13 It's quite clear, and I know that you have the charts  
14 and the graphs before you that show that the Chinese  
15 penetration into the market is what has caused us to  
16 lose about half of our jobs in this industry.

17 I represent the southwest corner of the  
18 State of Oregon, and I refer to some of my counties as  
19 the new Appalachian. They have chronic unemployment  
20 that exceeds 20 percent, despite having a skilled  
21 workforce, despite being surrounded by forests, and in  
22 part a number of those job losses and that high  
23 unemployment comes from the plywood sector. There are  
24 other factors that relate to the lumber sector.

25 And these aren't just jobs in the plywood

1 plants. You know, I've been doing this job for quite  
2 some time, and I remember early on when I would visit  
3 a plywood plant and it was an amazing process to watch  
4 them lay up because there were four guys throwing the  
5 sheets and the glue and doing this, and it was like a  
6 dance. But now we have the state-of-the-art plants in  
7 the world, and yet somehow we're losing market share  
8 to China.

9 Well, the reason we're losing market share  
10 is our companies have to pay a fair price for their  
11 legally obtained logs. Much of it comes off of  
12 federal lands, much of it comes off private lands in  
13 the northwest, but none of it is illegally logged as  
14 much of the supply for the Chinese plants is in Russia  
15 and Malaysia. So that's something we can't really  
16 compete with when someone has to pay a fair,  
17 market-based price for their raw material versus  
18 someone else who's buying it under the table and also  
19 purchasing generally from unsustainable sources. You  
20 just can't beat that.

21 And obviously as you know, it's endemic to  
22 China that there are many, many other subsidies  
23 provided to these manufacturers. They don't rise to  
24 our level of excellence, both in terms of the product  
25 or the level of technology and the state-of-the-art

1 that they're using in their plywood mills, but they  
2 make up for it with the subsidies and input.

3 And these aren't just jobs in the plywood  
4 sector, and I hope you'd keep that in mind. You know,  
5 in order to purchase the raw material we're talking  
6 about people again who are legally employed, working  
7 in an industry that actually pays taxes, who are  
8 logging in the woods, the truck drivers who bring the  
9 product to the mills, the truck drivers who remove the  
10 product from the mills and distribute it.

11 You know, we've been really hard hit, and it  
12 seems to me that if we're going to continue down the  
13 path we have -- I'm not a big fan of free trade  
14 agreements. Everybody knows that; mostly because of  
15 the lack of enforceability or lack of enforcement.  
16 Well, here's an opportunity where we're not dealing  
17 with the lack of potential enforceability.

18 We have an opportunity to enforce, to  
19 enforce the rules under these agreements and come to a  
20 just resolution, and hopefully this will not just  
21 affect the plywood sector if you uphold the Commerce  
22 decision, but it may send a message into other  
23 anticompetitive processes in China and elsewhere.

24 And we are not alone in bringing in this  
25 complaint. There's quite a lengthy list of -- here we

1 go. The EU, South Korea, the Philippines, Argentina  
2 and Colombia also have antidumping cases in the  
3 plywood sector. I mean, this is a worldwide  
4 recognized problem, and we could lead the world today  
5 here toward a just resolution of this issue. I thank  
6 you for the time, and I hope for the wisdom of your  
7 vote.

8 CHAIRMAN WILLIAMSON: Okay. Thank you,  
9 Congressman. Are there any questions for the  
10 congressman?

11 (No response.)

12 CHAIRMAN WILLIAMSON: I want to thank you  
13 very much for coming today.

14 MR. DeFAZIO: Well, thank you. Thanks. I  
15 appreciate the opportunity. The first time I think  
16 I've been here. It's a nice place.

17 CHAIRMAN WILLIAMSON: We're honored to have  
18 you then.

19 MR. DeFAZIO: All right. Thanks.

20 CHAIRMAN WILLIAMSON: Thank you.

21 MS. BARTON: Opening remarks, Petitioner,  
22 Jeffrey S. Levin of Levin Trade Law, P.C.

23 CHAIRMAN WILLIAMSON: Welcome, Mr. Levin.  
24 You may begin when you're ready.

25 MR. LEVIN: Thank you, Mr. Chairman. Good

1 morning. Good morning, Commissioners. Good morning,  
2 investigation staff. My name is Jeff Levin, and I'm  
3 with Levin Trade Law. I have the privilege of  
4 representing the Petitioners in these investigations,  
5 the Coalition for Fair Trade of Hardwood Plywood and  
6 its member companies.

7 The members of the Coalition, with  
8 manufacturing sites in states throughout the country,  
9 represent approximately 80 percent of domestic  
10 production of hardwood and decorative plywood. I am  
11 honored to be joined today by a panel of industry  
12 witnesses whose participation in this industry is  
13 unparalleled.

14 Together, these industry witnesses have a  
15 combined total of nearly 300 years' experience. They  
16 know the product. They know the market. They know  
17 domestic manufacturing. They know the importers and  
18 the distributors and the foreign suppliers, and they  
19 know all too well what has happened in this industry  
20 at the hands of unfairly traded, cheaply priced and  
21 directly competitive imports from China.

22 Last November, this Commission unanimously  
23 determined that there was a reasonable indication that  
24 the domestic industry was suffering material injury by  
25 reason of the subject imports. The Commission's

1 preliminary determination was but a continuation of  
2 what the Commission found in its earlier Section 332  
3 investigation, concluded almost exactly five years ago  
4 to the date of this hearing, namely that the  
5 competitive position of the U.S. industry has declined  
6 vis-à-vis the Chinese industry.

7           What we have seen since then is the havoc  
8 wreaked by imports from China upon the U.S. market.  
9 China is now the dominant player in the U.S. market,  
10 larger than any other single participant, and accounts  
11 for nearly half of U.S. consumption. Substantial  
12 portions of the market, which were once held by the  
13 domestic industry or at the very least on a fair  
14 competitive ground between the domestic industry and  
15 third country suppliers, is now the domain of the  
16 massive Chinese hardwood plywood industry.

17           The parties in opposition to this petition  
18 essentially make two arguments. First, that the  
19 Chinese industry serves a special need, an exploding  
20 demand for hardwood plywood with extremely thin  
21 veneers which simply cannot be obtained from domestic  
22 manufacturers or which they simply cannot obtain at  
23 prices they like. And they assert really the Chinese  
24 imports have not hurt you guys, the domestic  
25 manufacturers. We're just taking over from other

1 foreign sources.

2 Neither of these propositions can withstand  
3 scrutiny unless, of course, one were to believe that  
4 in the past three years we saw an explosive growth to  
5 the tune of 300 million square feet and a newfound  
6 demand for cabinet backs and sides that can get away  
7 with micro thin face veneers.

8 Make no mistake. As will be detailed this  
9 morning, Chinese imports have cannibalized the U.S.  
10 market and in the process have upended the industry's  
11 entire cost structure, but they have not fairly done  
12 so. In addition to unfair trade practices, producers  
13 in China have found many ways to cut their prices, and  
14 China, as the largest consumer of logs and timber in  
15 the world, has not necessarily kept a keen eye on  
16 where their wood is coming from.

17 Imports from China have increased by 20  
18 percent or more between 2010 and 2012. To the  
19 Respondents, that's not significant. Imports from  
20 China have undersold domestically manufactured product  
21 in 83 of 84 quarterly prices with underselling margins  
22 ranging to over 50 percent and, as we now know,  
23 dumping and CVD margins in excess of 50 percent.

24 But to the Respondents, that does not  
25 indicate any adverse price effects. The U.S. industry

1 struggles to maintain even a 50 percent capacity  
2 utilization rate and operates at a barely sustainable  
3 profit margin. But according to the Respondents, that  
4 ain't got nothing to do with us. So be it. Yet  
5 tellingly, in the period following the filing of the  
6 petition and particularly when the duty deposit  
7 requirements went into effect, imports from China  
8 slowed and the condition of the domestic industry  
9 improved. Coincidence? I think not.

10 We respectfully submit that the evidence of  
11 record demonstrates that this domestic industry is  
12 suffering material injury and is threatened with  
13 material injury by reason of subject imports. Thank  
14 you.

15 CHAIRMAN WILLIAMSON: Thank you.

16 MS. BARTON: For Respondents, Jeffrey S.  
17 Grimson of Mowry & Grimson, PLLC.

18 CHAIRMAN WILLIAMSON: Welcome, Mr. Grimson.  
19 You may begin when you're ready.

20 MR. GRIMSON: Thank you very much. Good  
21 morning. My name is Jeffrey Grimson from the law firm  
22 Mowry & Grimson, here representing the American  
23 Alliance for Hardwood Plywood or AAHP as we call it,  
24 which is a coalition made up entirely of American  
25 companies -- importers, distributors, lumber

1 exporters. And our coalition also includes the  
2 Kitchen Cabinet Manufacturers Association, which is  
3 the leading association representing American kitchen  
4 and bath cabinet manufacturers, both large and small.

5 The U.S. kitchen and bath cabinet industry  
6 employs approximately 100,000 American workers and  
7 represents around \$8.6 billion in sales. Well more  
8 than half of the KCMA's members are small cabinet  
9 shops with less than \$10 million in sales. These are  
10 the small businesses that are the engine of economic  
11 growth.

12 Today you will hear from several of these  
13 cabinet manufacturers who will testify about how and  
14 why they use both domestic and Chinese plywood for  
15 different end uses. They are the most important group  
16 of purchasers. They cannot get the product from the  
17 domestic producers that meets the specifications of  
18 the Chinese, so if this case goes forward it means  
19 that the domestic cabinet industry will be cut off  
20 from its supply of a critical raw material that has no  
21 domestic counterpart.

22 Simply put, if this case goes forward the  
23 U.S. kitchen and bath cabinet industry will be  
24 seriously harmed and will have to compete with  
25 cabinets from Canada, Mexico and China that can be

1 shipped here duty free. This is a matter of survival  
2 for small cabinetmakers who don't want their jobs  
3 shipped overseas. As one cabinetmaker said to me,  
4 this is existential for us.

5 You will also hear from our coalition  
6 members who export hardwood lumber to China and are  
7 knowledgeable about the uses of that raw material in  
8 China and representatives from the Chinese industry as  
9 well.

10 As you know from our brief and the  
11 Petitioners' brief and as Mr. Levin previewed, we have  
12 a very different view of what is happening in this  
13 industry. The Petitioners come to you asking for  
14 extraordinary import barriers that may last for years  
15 or even decades. The burden is on them to prove that  
16 they deserve such government intervention in the  
17 marketplace.

18 But they have failed to meet that burden.  
19 They have failed to meet that burden for several  
20 reasons. First, as you'll hear from our economist,  
21 this is not an industry that is suffering injury. You  
22 could stop this case at that part of your analysis  
23 without getting to causation, but there is no  
24 causation case here either for the following reasons:

25 There is a big difference between the

1 products coming from China and the products coming  
2 from the United States, and this is not the kind of  
3 quality difference argument that you hear in many  
4 Chinese cases and other cases as well. It's a  
5 difference that you can measure with a micrometer.

6 I'm holding up a sample of a domestic red  
7 oak veneer. On the micrometer, this measures about .7  
8 millimeters and it's beautiful. It's a wonderful  
9 product. It's what you want to look at. Because the  
10 Chinese face veneers are so thin, they're not easy to  
11 handle when they're dry. You can't use them in a  
12 machine. You have to handle them moist or wet. This  
13 is what it looks like. It's thin.

14 And in the production process they handle it  
15 by manual operations, and the Petitioners basically  
16 say these are the same thing. These are absolutely  
17 not the same thing, and you're going to hear that from  
18 the people that buy and use and spec out the product  
19 every single day. This is what the domestic producers  
20 have in their plywood and this is what's coming from  
21 China, and your data confirms that.

22 Please keep in mind these two samples of  
23 face veneer today when you're hearing the testimony.  
24 To believe the Petitioners, you have to ignore those  
25 differences. You have to ignore the testimony you're

1 going to hear today from the \$8.6 billion cabinet  
2 industry that needs both products together to make  
3 cabinets.

4 This case should have been terminated at the  
5 prelim, and we think that now based on more complete  
6 evidence you have in the final it is time to terminate  
7 this case and to forestall the harm that will come to  
8 the cabinet industry and to the other end uses that  
9 require the Chinese product. Thank you very much.

10 CHAIRMAN WILLIAMSON: Thank you.

11 MS. BARTON: Will the first panel please  
12 come forward?

13 (Pause.)

14 CHAIRMAN WILLIAMSON: Okay. I want to  
15 welcome this panel and, Mr. Levin, you may begin when  
16 you're ready. Thank you.

17 MR. LEVIN: Thank you. Good morning again,  
18 Mr. Chairman, Commissioners. Our first witness this  
19 morning will be Mr. Brad Thompson of Columbia Forest  
20 Products. Brad?

21 MR. THOMPSON: Good morning, Commissioners.

22 My name is Brad Thompson, and I'm the chief executive  
23 officer and president of Columbia Forest Products, a  
24 56-year-old American company that leads the nation in  
25 the production of hardwood plywood and veneer.

1           We are employee owned and are proud of our  
2           reputation for innovation and responsibility in terms  
3           of product development, green technologies and proper  
4           forest management techniques. We operate five U.S.  
5           plywood mills located in Oregon, Arkansas, West  
6           Virginia, North Carolina and Virginia, and we have  
7           three veneer mills in Wisconsin, Vermont, Maine, which  
8           supply our plywood mills and outside customers in a  
9           range of thinly peeled American hardwood decorative  
10          face veneers.

11           My work has taken me to all points of the  
12          globe, including China, to spend time in plantations,  
13          forests, production facilities, customer shops and  
14          showrooms, so I bring a very broad base of experience  
15          to my comments. I am testifying today on behalf of  
16          the 1,700 employee owners of our firm here in the  
17          United States.

18           Columbia Mills are located in rural  
19          communities where many more families, in addition to  
20          our own, are dependent upon our competitive viability.

21          Landowners, logging firms, veneer, resin and parts  
22          suppliers, truckers, distributors and fabricators all  
23          benefit from the ripple effect of our mills and what  
24          they generate economically, and they have suffered at  
25          the hand of unfairly traded Chinese imports.

1           As the market peaked in 2004 before Chinese  
2 imports gained a foothold in the U.S., Columbia  
3 employed 2,400 individuals with family wage jobs. We  
4 have lost three of 10 members of the Columbia family  
5 who were here less than 10 years ago, and that tragedy  
6 began before the housing bubble burst. For that  
7 matter, our industry was essentially shut out of the  
8 housing boom because of Chinese plywood's influx.

9           A case study of how the Chinese embedded  
10 their greatly discounted plywood products within our  
11 industry will show that they penetrated at the low end  
12 of the grade scale and then moved on from there. To  
13 explain, when we peel a decorative veneer log -- let's  
14 say a birch log -- we obtain a ribbon of veneer that  
15 is graded to a common visual scale that accounts for  
16 knots, coloring and consistency. One log will produce  
17 X amount of high grade A veneer, X amount of B grade,  
18 C grade and D grade and so on. C and D grades are on  
19 the low end and are priced accordingly.

20           Because wood is a precious resource, we in  
21 the business of converting it into usable decorative  
22 panels must sell the entire mix of grades that come  
23 from each log. When the Chinese with their  
24 subsidized, low-cost material came to our shores  
25 emphasizing their C and D grade panels, they threw off

1 the entire economic balance of the American veneer  
2 procurement and merchandising system. Suddenly we had  
3 too much supply of their own C and D grade products  
4 and had to discount them to make them move. Thus  
5 began our profit and workforce erosion.

6 But to the users of hardwood plywood it must  
7 have felt like a gift from above. Instantly they  
8 could convert major portions of their purchasing needs  
9 to Chinese plywood, incorporate it into their  
10 furniture, fixtures and cabinets and pocket the 30  
11 percent difference. They could still say their  
12 finished goods were made in America, and they still  
13 do, but they didn't have to reveal to Mrs. Jones that  
14 the entire chassis of her new kitchen that was built  
15 upon was constructed of Chinese plywood from half a  
16 world away that was being unfairly dumped by Chinese  
17 companies assisted by the Chinese Government.

18 As a life-long wood products manufacturing  
19 engineer, I can appreciate that instinct. You're  
20 incented toward cost savings and seeking less  
21 expensive, interchangeable materials to swap out and  
22 pass through. That's exactly what lured our customers  
23 away from us using our own domestic resources  
24 beginning in early 2000.

25 I routinely make visits to customers and as

1 recently as this spring conducted a tour of the Mid  
2 Atlantic region. I saw a mix of materials being used.

3 When I inquired about what makes them choose Chinese  
4 over domestic I got a lot of sheepish apologies. They  
5 said they just couldn't turn down the price.

6 Many of these customers rely on word of  
7 mouth to get work. They don't do extensive  
8 manufacturing engineering. They don't run complex  
9 financial analysis on their business, but they can do  
10 quick math. And when one of their key raw material  
11 components can be purchased at a 30 percent discount  
12 they can't help but substitute.

13 I will say that since the rumor of this  
14 investigation began circulating as early as last year,  
15 then as the petition was filed and deposit duties were  
16 announced we experienced a higher frequency of  
17 interest in discussing supply arrangements with  
18 customers who had been heavily reliant on Chinese  
19 plywood.

20 The facts are what they are. The toll these  
21 unfair trade practices have taken on our fundamental  
22 American industry is tragic. Too many lost jobs,  
23 closed companies and too much unregulated formaldehyde  
24 coming out of these unfairly subsidized substitute  
25 Chinese plywood materials.

1           Before I close I would like to bring your  
2           attention to the samples I have with me, and they're  
3           on the table here. They were produced in several of  
4           our U.S. mills with extremely thin veneer some of the  
5           importers claim is unique to Chinese manufacturers.  
6           That's utter nonsense. We can peel veneer thicknesses  
7           that make them almost transparent. The plywood  
8           samples you see feature veneer peeled at .4 millimeter  
9           and, as you can see, it's a beautiful piece of  
10          plywood.

11                 So there's two points I'd like to make.  
12          One, we can do it. And, number two, it only saves a  
13          fraction of the cost of the plywood, nothing close to  
14          what it would take to bring our cost down to that of a  
15          subsidized Chinese panel. And oh, by they way.  
16          There's one more sample, and there's some on the  
17          table, and that's a piece of veneer much like the one  
18          the gentleman just showed a few minutes ago.

19                 I've put it in a plastic sleeve because it's  
20          very thin, peeled at .25 millimeter in our own Vermont  
21          plant. So we have the technology. We can do it, and  
22          it's a red herring. It gets a little fragile, so you  
23          may be careful with that. It just doesn't pencil out,  
24          again after you look at the dollars involved in  
25          peeling it thinner.

1                   Finally, you'll also see various core  
2 options throughout these samples. The Chinese assert  
3 that we in the U.S. rely on softwoods for core  
4 material, and that's another big differentiator of  
5 their products. That's more nonsense. We utilize  
6 plenty of aspen and poplar hardwood in our cores. In  
7 fact, we held a grand opening this summer at a tree  
8 farm that grows fast-growing plantation poplar, which  
9 we use in panel cores in our Oregon facility.

10                   Thank you again for the opportunity to tell  
11 our story and to seek a level playing field.

12                   CHAIRMAN WILLIAMSON: Thank you.

13                   MR. LEVIN: Thank you, Brad.

14                   CHAIRMAN WILLIAMSON: Before we go on,  
15 Congressman Welch is here so I think we will take him  
16 now, and then you can continue.

17                   MR. LEVIN: That's fine. Obviously whatever  
18 you would like, Mr. Chairman.

19                   CHAIRMAN WILLIAMSON: Yes.

20                   MR. LEVIN: I just want to move to enter  
21 these samples into evidence, but I'll hold off on  
22 that.

23                   CHAIRMAN WILLIAMSON: Yes.

24                   MR. LEVIN: Okay.

25                   CHAIRMAN WILLIAMSON: We'll do all that

1 afterwards.

2 MS. BARTON: The Honorable Peter Welch, U.S.  
3 Representative At-Large, Vermont.

4 CHAIRMAN WILLIAMSON: Okay. Welcome,  
5 Congressman Welch. You may begin when you're ready.

6 MR. WELCH: Thank you very much. I first of  
7 all really appreciate you letting me speak and  
8 testify, and it's very kind of you to let me go out of  
9 order, and I beg the indulgence of everyone who's  
10 here.

11 You know, I'm here because this issue is  
12 incredibly important in Vermont, and your job is  
13 incredibly important to America. And this question of  
14 the hardwood industry and what's happening as a result  
15 of Chinese policies, three things in particular:

16 Significant government subsidies that pad  
17 the bottom line of the Chinese competitors. Number  
18 two, illegal logging. There's no requirement that  
19 they follow any legitimate policies with respect to  
20 the wood that they use. And then third, after they  
21 are unable to sell products into their own market they  
22 dump them in ours, and the effect on that is to crush  
23 the hardwood industry in this country through illegal  
24 practices, not through fair competition.

25 And those are the three specific things that

1 have been documented that the Chinese Government is  
2 doing and allowing, the dumping and the illegal  
3 logging and then promoting things with the subsidies,  
4 and this organization is absolutely critical in making  
5 certain that there is a level playing field. And  
6 that's all that the hardwood industry is asking.

7           You know, in Vermont we've got a good  
8 hardwood industry. A lot of the wood products come  
9 right from the land and then they're processed in the  
10 Northeast Kingdom, which is a beautiful part of  
11 Vermont -- and the Northeast Kingdom named that way by  
12 Senator George Aiken years ago -- and its hardworking  
13 people who depend on these jobs.

14           Columbia Forest Products is a national  
15 company, but it has one of its biggest facilities in  
16 Vermont. It provides very good jobs to local  
17 Vermonters; not just the jobs in the facility, but the  
18 wood products jobs of loggers who are out in the woods  
19 doing incredibly hard work that they're quite proud  
20 of.

21           So what we need is for you to use the  
22 authority that you have on the basis of the  
23 investigation that is turning up this I think  
24 irrefutable evidence of dumping, subsidies and illegal  
25 logging and to take the action that is within your

1 authority to take with respect to offsetting that with  
2 tariffs in order to give Columbia Forest Products and  
3 all our wood product industries a fighting chance.

4 Brad Thompson I think is here; Gary  
5 Gillespie, who runs the operation up in Vermont.  
6 We're very proud of him. These folks take care of the  
7 people that they work for. They're really good  
8 products, and we have to make certain that they have a  
9 shot at success.

10 So you have a big job. All we're asking  
11 that you do after due diligence, if you come to this  
12 conclusion that the evidence is there, and we're  
13 confident it is, that you take the appropriate action  
14 to not only help -- it's not to help our industry.  
15 It's to give them an even, fighting chance. That's  
16 the goal.

17 So I thank you very much for your attention  
18 and the opportunity to speak on behalf of an industry  
19 in Vermont and around the country that my colleagues  
20 support me in. Bipartisan, by the way, our letter.  
21 Let America do work with the good American workers.  
22 Thank you very much.

23 CHAIRMAN WILLIAMSON: Thank you. Are there  
24 any questions for the congressman?

25 (No response.)

1                   CHAIRMAN WILLIAMSON: No? Congressman, I  
2 want to thank you very much for coming.

3                   MR. WELCH: Thank you.

4                   CHAIRMAN WILLIAMSON: We very much  
5 appreciate your testimony.

6                   MR. WELCH: I really appreciate it. You're  
7 getting more done here than we are over there.

8                   (Laughter.)

9                   CHAIRMAN WILLIAMSON: No comment.

10                  MR. WELCH: No comment. Yes. I've got to  
11 go back there and work hard.

12                  CHAIRMAN WILLIAMSON: Okay. Thank you.  
13 We'll let you get back then. All right.

14                  MR. LEVIN: Mr. Chairman, if I may, first of  
15 all is my understanding correct that the hour clock  
16 froze for the congressional testimony?

17                  CHAIRMAN WILLIAMSON: Yes.

18                  MR. LEVIN: Okay. Thank you. Second, I  
19 would like to, with the Commissioners' permission,  
20 enter into evidence the samples that Mr. Thompson had  
21 referred to. All of the samples that are on the table  
22 we would like to formally introduce as evidence in the  
23 record.

24                  CHAIRMAN WILLIAMSON: Fine. Thank you.

25                  MR. LEVIN: Thank you very much. With that,

1 our next witness is Mr. Joe Gonyea of Timber Products.  
2 Joe?

3 MR. GONYEA: Thank you. Chairman Williamson  
4 and Commissioners, good morning and thank you for the  
5 opportunity to be part of this hearing. I'm Joe  
6 Gonyea, III, partner and CEO of Timber Products  
7 Company. I'm the fourth generation of my family to  
8 work in the wood products industry. I'm testifying  
9 today to represent the views of our 959 team members  
10 located in Oregon, California, Tennessee, Mississippi  
11 and Michigan.

12 I want to begin my testimony with what is  
13 most important. We support free trade that's fair  
14 trade. As we all know, we live in a global economy  
15 where free and fair trade is the norm. Regarding  
16 Chinese hardwood plywood sold in America, that's not  
17 the case, as the data and written testimony submitted  
18 to this Commission will show.

19 Timber Products Company is in the  
20 manufacturing, sales and marketing, transportation and  
21 timberland management business. We have eight  
22 manufacturing facilities located around the nation.  
23 We are proud owners and stewards of 114,000 acres of  
24 timberland that are third party certified to meet the  
25 strict standards of the Sustainable Forestry

1 Initiative or SFI.

2 Our largest product line is hardwood  
3 plywood, and with three mills we are one of the  
4 largest domestic producers in North America.  
5 Additionally, Timber Products Global imports wood  
6 products from around the globe, including South  
7 America, Africa, Russia and Asia, to complement our  
8 domestic production. Imported products represent an  
9 estimated 4.9 percent of our annual sales. We use  
10 this division, if you will, as our R&D center to  
11 explore products and market opportunities from around  
12 the globe.

13 At Timber Products Company, 950 team members  
14 used to be 1,450 just a short time ago. It has been  
15 an agonizing time for me, our management team, but  
16 mostly for our team members who lost their jobs due to  
17 lack of orders. Local communities where we do  
18 business rely on companies like ours that can offer  
19 family wage jobs with full benefits. This is  
20 especially painful when we know we can compete with  
21 any similar product from around the globe.

22 That claim is not just thumping our chest.  
23 We've invested millions in new technologies. We have  
24 modern manufacturing facilities, and we have embraced  
25 lean manufacturing. We are vertically integrated from

1 the tree to finished hardwood panels. We do it all.

2 So how did the Chinese, who import most of  
3 their raw materials from thousands of miles away, make  
4 the product, then ship it thousands of miles back  
5 across the Pacific and sell it below our cost? The  
6 data submitted sends a clear message. We do not have  
7 a level playing field. Free trade must be fair trade,  
8 and that is not the case with imported Chinese  
9 hardwood plywood.

10 I have over 30 years of experience in  
11 business, 25 of those being in wood products. I have  
12 held a wide variety of positions over the years,  
13 giving me a thorough understanding of every aspect of  
14 the business, including firsthand knowledge about our  
15 markets. While our business has been impacted by the  
16 great recession, I can tell you with certainty the  
17 greatest sting has come from unfairly traded Chinese  
18 imports that have cannibalized our markets.

19 In 2002, the Chinese share of the North  
20 American hardwood plywood markets was in the low  
21 single digits. In 2012, Chinese products comprised  
22 essentially 50 percent of the total U.S. market share.

23 In this short period of time, the Chinese have taken  
24 over markets and customers we once enjoyed, doing so  
25 with subsidized and unfairly traded products.

1           How can the Chinese do it? We don't pretend  
2           to walk in their shoes, but we see that the mills are  
3           often noncompliant with their formaldehyde use of the  
4           latest California and soon to be national standard.  
5           Their forestry practices are subpar, and the presence  
6           of illegal logs or wood fiber in Chinese mills is not  
7           a matter of if, but rather how much. They cut corners  
8           with the product with thin-faced veneers, undersized  
9           panels, the use of low grade interplys. Chinese  
10          hardwood plywood is often mislabeled or otherwise  
11          misrepresented. This all adds up to unfair advantage  
12          and cheap pricing of their goods sold in America.

13                 In a newly released report, Appetite for  
14          Destruction, the Environmental Investigation Agency,  
15          EIA, reports that China is now the biggest importer,  
16          exporter and consumer of illegal timber in the world.

17          In 2011, for example, the Chinese imported 180  
18          million cubic meters of timber and wood products.  
19          About 80 million cubic meters of these logs were used  
20          as sawn timber. Of these, an estimated 18.15 million  
21          cubic meters were illegal, or 23 percent.

22                 Many other studies from independent  
23          environmental organizations are available regarding  
24          the use of illegal logs in the China wood products  
25          industry. I don't know what the actual number is, but

1 the fact stands that the use of illegal logs is a  
2 major factor, one that has impacted the price of wood  
3 products sold in America.

4 I want to make something perfectly clear.  
5 Domestic producers can make the exact same product as  
6 the Chinese, but not at the same price. Come to our  
7 mills and see for yourself. The samples on the table  
8 that we have provided are just examples to prove that  
9 point. We ask you don't get distracted by the claim  
10 that the domestic producers can't make the same  
11 product as the Chinese. Instead, please focus on what  
12 our petition is all about: Unfairly traded Chinese  
13 imports that have cannibalized large portions of the  
14 U.S. market at the expense of domestic manufacturers.

15 In summary, domestic producers can compete  
16 on a level playing field. Free trade must be fair  
17 trade, and that has not been the case with the Chinese  
18 hardwood plywood. Thank you for your careful  
19 consideration of our extensive written and oral  
20 testimony.

21 MR. LEVIN: Thank you, Jim.

22 Our next witness will be Mr. Mike Clausen of  
23 Timber Products. Mike?

24 MR. CLAUSEN: Good morning, Commissioners.  
25 My name is Mike Clausen. I'm Vice President of Sales

1 for Hardwood Plywood, both Domestic and International,  
2 for Timber Products Company. It is a pleasure to be  
3 here this morning.

4 By way of reintroduction, I have been  
5 involved in the hardwood plywood industry since 1977.

6 I graduated from Oregon State University with a  
7 degree in Forest Products from the School of Forestry.

8 During my 36 years in the business, I have worked in  
9 the domestic hardwood plywood industry in sales,  
10 production and sales management and then switched for  
11 27 years into the imported wood arena. I have now  
12 returned to the domestic hardwood plywood industry.

13 I have traveled overseas extensively  
14 visiting many mills around the world, including Asia.

15 I have had the pleasure to work with and know quite  
16 well the hardwood plywood marketplace in North  
17 America, including distributors, end use manufacturers  
18 and big box retailers. This morning I would like to  
19 take exception to comments made in previous testimony  
20 by some of the Respondents.

21 I would first like to present to the  
22 Commissioners some statistical evidence that shows  
23 that Chinese products of birch plywood has taken  
24 market share that was previously held by U.S.  
25 manufacturers and not because of a unique new product

1 development with the thin face and back veneers and a  
2 secret sauce. The total U.S. production in thousand  
3 square feet of birch plywood from 2003 to 2012  
4 declined by 49 percent, and during that same period  
5 the total cubic meters of Chinese plywood imported  
6 into the U.S. increased by 55 percent.

7 This shows domestic made products were  
8 losing market share each year, even though the U.S.  
9 housing market for the last two to three years has  
10 improved significantly with kitchen and bath vanities  
11 in every apartment and every single family home. We  
12 have seen little to no growth in our production, while  
13 Chinese imports have increased significantly.

14 Clearly, the Chinese portion of the imported  
15 plywood market has rached up over a very short  
16 period of time. The importers of Chinese hardwood  
17 plywood and the domestic manufacturers of hardwood  
18 plywood sell to exactly the same market sectors and to  
19 many of the same customers.

20 Personally having spent 27 years in the  
21 import plywood business and then switching to the  
22 domestic hardwood plywood business at Timber Products  
23 has been a very smooth transition in terms of the  
24 customer base. At least 70 percent of the customers  
25 and 100 percent of the market sectors that I work with

1 today in the domestic hardwood plywood are  
2 relationships that I began when I was in the imported  
3 hardwood market.

4 I can also emphatically state that contrary  
5 to testimony, the importers of Chinese hardwood  
6 plywood have not found a new use or a new application  
7 of their plywood. On the contrary, it's just cheaper.

8 Regretfully, in these especially tough economic times  
9 cheap wins.

10 I would like to discuss the construction of  
11 any hardwood plywood panel and how it might differ or  
12 not between the U.S. plywood manufacturers or a  
13 Chinese manufacturer or, quite frankly, any plywood  
14 manufacturer anywhere in the world. An easy way to  
15 think about hardwood plywood is a sandwich. The bread  
16 is the hardwood face and back of the sandwich, and the  
17 filling is the core. This hardwood plywood sandwich  
18 is available in many different kinds of bread --  
19 species of hardwood veneer -- and many different kinds  
20 of fillings -- MDF core, veneer core, particle board,  
21 et cetera.

22 The ingredients for the hardwood plywood  
23 sandwich are readily available to all manufacturing  
24 facilities worldwide. The reason why hardwood plywood  
25 sandwiches from around the world look different, such

1 as in China, is because the ingredients that are  
2 readily available nearby are different, and some  
3 ingredients have to come from a very long way such as  
4 hardwood veneer from the upper midwest in North  
5 American all the way to China in the form of logs or  
6 veneer.

7 In North America, almost every kind of  
8 sandwich ingredient -- hardwood and softwood products  
9 -- is available. You can order your bread, the  
10 hardwood veneer, in any thickness, and your filling,  
11 the hardwood panel core, can also be ordered in many  
12 different ways. If you want a softwood veneer core  
13 with uniform thickness of each ply, just order it that  
14 way. If you want very thin veneer, just order it that  
15 way.

16 Making the sandwich is quite easy once you  
17 understand the effects of heat, pressure, moisture,  
18 adhesive and the time as your sandwich, the hardwood  
19 panel, is being made. Simply press the components  
20 together. American hardwood plywood manufacturers can  
21 make your sandwich any way you want it. Yes, the  
22 Chinese product works and it has displaced U.S.  
23 production only because it does work and is cheap. On  
24 cabinet backs you can get away with core bleed through  
25 or a sand through on a drawer bottom, but really only

1 because it's cheap.

2 The entire argument by the Respondents on  
3 their thin veneers is a red herring. There are some  
4 applications where it works, yes, and the Respondents'  
5 argument that U.S. manufacturers cannot produce thin  
6 panels is also a red herring. We can and do  
7 manufacture thin plywood every day and can do it with  
8 thin faced veneers.

9 Regretfully, we don't often get the  
10 opportunity to quote or bid these panels because the  
11 customer knows that we cannot come close to compete on  
12 the price of Chinese panels. I can honestly attest  
13 that a very high percentage of the largest users of  
14 Chinese product have not asked for a domestic quote  
15 for months and generally years on what they're  
16 purchasing from the Chinese importers today.

17 The Respondents would like everyone to  
18 believe that domestic manufacturers have no ability to  
19 supply this market. I can tell you this. Domestic  
20 industry is only at 50 to 60 percent of manufacturing  
21 capacity, and we would love to produce these products.

22 I would also ask the Commissioners to look  
23 at the subject product from China. They are products  
24 one and the same with the U.S. production that we've  
25 been handing out. The Respondents have submitted that

1 because their product uses thin face and back veneers  
2 this makes them unique and magical to the marketplace.

3 They are the same species, they are the same final  
4 thicknesses, and they are used in the same  
5 applications. The only true meaningful difference is  
6 their cheap price.

7 Thank you for your time and attention this  
8 morning, and I look forward to answering any questions  
9 you might have.

10 MR. LEVIN: Thank you, Mike.

11 Our next witness will be Mr. Wave Oglesby.  
12 Wave is with Columbia Forest Products. Wave?

13 MR. OGLESBY: Good morning. My name is Wave  
14 Oglesby, and I'm testifying as the Vice President of  
15 Sales and Marketing for Columbia Forest Products, a  
16 North Carolina based producer of hardwood plywood.  
17 I've worked at Columbia for 29 years and am very well  
18 acquainted with the sales and marketing of hardwood  
19 plywood as produced in North America, Europe, China  
20 and elsewhere.

21 We've been competing with the Europeans for  
22 decades in a very open and honest manner and with the  
23 Chinese for 11 years in a very different, but very  
24 disturbing way, if you can even call it competing.  
25 It's more like suiting up for a football or basketball

1 game every day with your hands tied behind your back.

2 Today, our customers, the woodworking shops  
3 that are still in business in the United States, are  
4 operating at levels well below their capacity, and  
5 many feel they have to use the cheapest priced  
6 products they can find just to stay afloat. Many of  
7 our customers have told me that they can't raise their  
8 prices because of these cheap, imported raw materials  
9 in the marketplace.

10 The other day a cabinet shop told me I  
11 always liked Columbia Forest Products' hardwood  
12 plywood. All things being equal, I'd choose CFP every  
13 time, but I have to buy on price and can't buy CFP  
14 right now. Under these conditions, imported Chinese  
15 products continue to take market share and with it  
16 American jobs.

17 I estimate that the Chinese have taken 30 to  
18 50 percent of the market for hardwood plywood in the  
19 U.S. It is extremely difficult to develop business in  
20 markets and market a product when you have the Chinese  
21 underselling the market prices by some 30 percent day  
22 in and day out. The Chinese have successfully  
23 penetrated the low-grade segment of our industry, and  
24 that alone is playing havoc with the rest of our  
25 system like a virus. Allow me to explain.

1           When we take a log, normally about eight  
2 feet long, we spin in on a lathe and peel off the  
3 continuous thin layer of veneer, much like a roll of  
4 paper towels unwinding. Our industry has organized  
5 definitions for decorative grades of wood veneer that  
6 result from this process. The high grades -- A and B  
7 they are called -- are mostly used in visual,  
8 important areas like the sides of cabinets or wall  
9 panels. Low grades like C and D are often used as  
10 shelves or in the backs of cabinets or drawer bottoms  
11 where their less than premium looks are not so  
12 exposed.

13           When we peel a log, we get a certain amount  
14 of all these grades and we must find a home for every  
15 one of them or the pricing structure of the industry  
16 gets out of balance. As you might expect, the  
17 low-priced Chinese plywood we're battling is making it  
18 extremely difficult to move our low-grade veneer.  
19 Thus, it has upset the domestic industry's need to  
20 distribute all the grades that come from our logs.

21           It is becoming a vicious cycle where we have  
22 to charge more and more for the As and Bs since the  
23 value of the Cs and Ds have been held below normal by  
24 the artificially low-priced Chinese products. At this  
25 rate, it's unclear how long we can keep up this

1 imbalance.

2           We respect and are quite adept at using our  
3 country's magnificent renewable hardwood resources  
4 responsibly, but that kind of thing doesn't seem to  
5 occur to the Chinese. Many hardwood plywood and  
6 veneer plants have shut down and no longer exist in  
7 the United States due in a large part to the pricing  
8 of these Chinese products. What the Chinese make and  
9 ship to the U.S. is directly substituted for  
10 domestically manufactured hardwood plywood, but at  
11 prices that are 30 percent or more below the U.S.  
12 product.

13           Our former customers who use these Chinese  
14 products where they used to use our domestically  
15 manufactured hardwood plywood do so because they can  
16 buy at 30 percent cheaper prices. We don't blame our  
17 customers for choosing less expensive products. Our  
18 industry is lucky to be operating in the black,  
19 although barely. If we invest what cash we have into  
20 equipment and methods that will help us hold or reduce  
21 our operating cost. And in the face of rising log  
22 prices, fuel cost, transportation charges and labor  
23 and benefits, we've been forced to keep our prices as  
24 stable as we can without going out of business like  
25 many of our competitors.

1           But we do blame a lot of our domestic  
2 industry's predicament on the pervasive and persistent  
3 underpricing by Chinese products. Furthermore, we  
4 have seen companies in the U.S. move from buying this  
5 product through importers to now buying it directly  
6 from Chinese mills. This eliminates the profit the  
7 importer was making and plays into the long-term  
8 Chinese game plan.

9           The cost of our hardwood plywood hardly goes  
10 up when ocean freight prices jump or inland freight  
11 transportation cost increases or even when a duty  
12 deposit is required from China. The Chinese  
13 mysteriously absorb these costs and keep the same low  
14 prices in the marketplace. We certainly can't do this  
15 as selling under one's cost in this country is a  
16 straight ticket to bankruptcy.

17           We have seen pricing stay flat to lower over  
18 the last three years when, as just one example, gas  
19 and oil costs have gone up drastically all over the  
20 world. My primary concern is what will we do when we  
21 have lost all the hardwood plywood manufacturing in  
22 the U.S. to these low prices?

23           Sadly to say, that will be the end to  
24 another distinguished and proud manufacturing industry  
25 in the United States and thousands of manufacturing

1 jobs in this and other related industries to the  
2 Chinese once again. Thank you very much.

3 MR. LEVIN: Thank you, Wave.

4 Our next witness will be Mr. Norman Roberts  
5 of Roberts Plywood. Norm?

6 MR. ROBERTS: Good morning, Commissioners.  
7 My name is Norman Roberts, president of Roberts  
8 Plywood located in Deer Park, Long Island, New York.  
9 We are a family owned wholesale distributor of  
10 hardwood plywood, lumber and veneer. I have owned my  
11 own company for 36 years. I've been in the plywood  
12 industry for the last 42 years.

13 I started my business in January 1978 as a  
14 one-man business in a 1,350 square foot warehouse.  
15 Today, we are 39 employees in a 77,000 square foot  
16 building. I do the majority of all the purchasing of  
17 hardwood plywood for my company. I have traveled  
18 throughout the world to purchase material. Several  
19 years ago, I traveled to China to meet with six  
20 plywood mills. However, I do not sell any Chinese  
21 products. The only Chinese product I buy is lunch.

22 I receive market information from my sales  
23 team, along with conversations with people in the  
24 marketplace. Since I'm one of the few wholesale  
25 distributors in the tri-state area who does not sell

1 Chinese plywood, I have noticed I have lost a lot of  
2 orders to my competition. Unfortunately, this can be  
3 seen in the steadily increasing sales in such products  
4 as maple, birch and red oak.

5 We lose a lot of business to competitors who  
6 carry Chinese plywood strictly due to pricing. As a  
7 New York plywood distributor, certain areas such as  
8 Brooklyn and Queens are driven mainly only by price  
9 and price alone. These areas are a very close-knit,  
10 multicultural woodworking community who openly discuss  
11 pricing amongst one another.

12 Also, many companies have purchasing agents  
13 whose job is to call on a variety of plywood companies  
14 to source the material at the lowest cost.  
15 Unfortunately, this is where I often lose an order  
16 because I cannot compete with the price of Chinese  
17 plywood. My cost from the manufacturers such as  
18 Columbia Forest Products and Timber Products is more  
19 than what my competitors sell their products to the  
20 customers for.

21 I know from personal experience that imports  
22 from China directly compete with domestically produced  
23 hardwood plywood across a range of hardwood plywood  
24 products. This can be seen in a range of products  
25 from maple, birch, red oak, et cetera. From what I've

1 seen in the market, the Chinese compete with the  
2 domestic manufacturers more so than on the high end  
3 exotic segment of the market.

4 In the last decade, the increase of Chinese  
5 plywood imports has had a direct inverse relationship  
6 among American hardwood plywood manufacturers. Such  
7 companies as Weber Veener and Atlantic Veneer in  
8 Beaufort, North Carolina, to name a few, are no longer  
9 in existence, as well as the companies that have  
10 transitioned from two to three shifts a day down to  
11 one. All this trickle down says less jobs in the  
12 United States for salespeople, machine manufacturers,  
13 veneer manufacturers, railroads, press equipment  
14 manufacturers.

15 I know that in the investigation it made a  
16 point of argument presented by the companies that  
17 oppose the Coalition Petitioners the Chinese have  
18 increased because the Chinese are able to manufacture  
19 hardwood plywood products of particular thin face of  
20 veneers. This cannot be sourced from domestic they  
21 say. This is a false statement. American hardwood  
22 plywood mills and veneer manufacturers have the tools,  
23 the technology and the workforce to produce plywood.

24 I know from personal experience that all  
25 Chinese products can be sourced from domestic

1 producers. However, domestic producers are and have  
2 been severely handicapped because it is not possible  
3 for domestic producers to meet the price points set by  
4 the Chinese products while remaining competitively  
5 viable. Domestic manufacturers have lost sales due to  
6 cheaper products sourced from China. The Chinese are  
7 selling vanities, kitchen cabinets and store fixtures.

8 The loss of sales hurts the domestic producers.

9 Since the inception of the tariff, my  
10 business sales have actually increased 10 to 15  
11 percent. This has allowed me to hire two new  
12 employees. The increase can also be seen with my  
13 suppliers in economically depressed areas as Corinth,  
14 Mississippi; Old Fort, North Carolina; Chatham,  
15 Virginia; Newport, Vermont; Medford, Oregon; Grants  
16 Pass, Oregon; and Yreka, California.

17 It is imperative we continue with the  
18 antidumping duties on imports of Chinese supply to  
19 restore fair competition and American growth within  
20 the industry so we can put more Americans to work.

21 Thank you.

22 MR. LEVIN: Thank you, Norm.

23 Our next witness will be Mr. Terry Awalt of  
24 JSI Store Fixtures, and I just want to note before Mr.  
25 Awalt starts his testimony at the direction of the

1 Commission JSI will be submitting a purchaser's  
2 questionnaire response. Terry?

3 MR. AWALT: Good morning, Commissioners. My  
4 name is Terry Awalt. I am the president, CEO and  
5 founder of JSI Store Fixtures. JSI Store Fixtures is  
6 an OEM manufacturer of refrigerated and  
7 nonrefrigerated displays for the supermarket industry.

8 Most displays we manufacture are made with  
9 solid veneer plywood. We have been a manufacturer of  
10 wood displays for the supermarket industry since 1991.

11 We have 170 employees in a town that only has 3,500  
12 residents. We are the largest employer in town and  
13 the third largest employer in the county. We are in a  
14 pine tree zone that the state has named as an  
15 economically depressed community.

16 I am proud to say that we have been named  
17 SBA Small Business of the Year for the State of Maine,  
18 we have received the Governor's Business Excellence  
19 Award, and last year we were named the SBIA Portfolio  
20 Company of the Year for the whole country.

21 I am happy to say that JSI has switched from  
22 Chinese hardwood veneer plywood to domestic plywood in  
23 August of 2012. We purchased about 25,000 sheets of  
24 Chinese plywood last year before switching to domestic  
25 plywood and then purchased about 10,000 sheets of U.S.

1 plywood for the remainder of the year. The major  
2 reason that we switched to domestic plywood from  
3 Chinese plywood was because of the poor quality that  
4 we were experiencing with the Chinese plywood.

5 We experienced a large variance in thickness  
6 of the Chinese plywood, delaminating, pink glue  
7 bleeding through the thin veneer and voids in the  
8 core. All of these things caused us massive rework in  
9 the factory. We also experienced a large number of  
10 quality complaints from our customers. This caused us  
11 to sometimes ship new fixtures to the store and tell  
12 them to scrap the old ones.

13 At that point I made the decision to switch  
14 to all domestic veneer plywood and also instructed our  
15 plant manager to only use the import plywood we had on  
16 hand for hidden structural support parts. Our quality  
17 complaints have been reduced dramatically, and our  
18 rework is almost nonexistent.

19 Currently, C2 domestic maple veneer plywood,  
20 truckload quantity, is \$48 per sheet versus import at  
21 \$31 a sheet for Chinese birch plywood. This is based  
22 on our latest quote a couple of weeks ago. We have  
23 still made the decision to use only domestic plywood  
24 that is truly formaldehyde free. JSI has had no  
25 problems in sourcing plywood from the U.S., and the

1 supply is plentiful.

2 We are informing our customers that we use  
3 only domestic plywood truly formaldehyde free hoping  
4 this helps them to consider JSI as a top quality  
5 manufacturer and not to only consider price as the  
6 determining factor when choosing a custom wood  
7 manufacturer for their displays.

8 Our business is still thriving, and last  
9 month was our third largest month in our 22 year  
10 history. This month will probably even be better than  
11 last month. We have hired eight more people in the  
12 last two weeks.

13 Thanks for your time, and I look forward to  
14 answering any questions that you have. Thank you.

15 MR. LEVIN: Thank you, Terry.

16 Our next witness will be Mr. Kip Howlett.  
17 Kip is the president of the Hardwood Plywood and  
18 Veneer Association. Kip?

19 MR. HOWLETT: Good morning, Commissioners.  
20 I'm Kip Howlett, president of the Hardwood Plywood and  
21 Veneer Association in Reston, Virginia. HPVA is 92  
22 years old. HPVA Laboratories is an IS accredited  
23 third party certification agency, which includes  
24 formaldehyde emissions, testing and certification for  
25 HUD and the California Air Resources Board, CARB.

1 HPVA is also the sponsor of the ANSI/HPVA HP-1  
2 hardwood and decorative plywood standard, which from  
3 1932 has served as the gold standard defining this  
4 product class.

5 I've been in the forest products industry  
6 for 30 of my 40 years in business. Unfairly traded  
7 Chinese imports have devastated the U.S. industry,  
8 shutting down 25 percent of the production capacity,  
9 and the remaining capacity operates at 50 percent or  
10 less of production rates. We've lost 25,000 direct  
11 and indirect and associated jobs in this industry.

12 We lost one manufacturer in Virginia who  
13 went bankrupt. Why? The platforms they were buying  
14 from a company in China that they laid up with veneer  
15 and prefinished for sale in the northeast market in  
16 Virginia eventually faced their Chinese platform  
17 supplier, who started selling the prefinished plywood  
18 made in China to their customers in the northeast at a  
19 price lower than the price of the platforms that they  
20 were buying. It was not just the economy.

21 Over the last decade, Chinese imports rose  
22 from less than \$100 million a year to over  
23 \$686 million last year. Their market share rose from  
24 less than 5 percent to over 50 percent of the U.S.  
25 market, and imports from other countries such as

1 Canada, Indonesia, Brazil and Malaysia declined as  
2 well. Unfair trade sinks all boats.

3 China undercuts U.S. producers by devious  
4 means. Hardwood plywood is a decorative panel product  
5 and not construction plywood. It is HP-1 compared  
6 with APA PS1 and PS2. Because resins used in  
7 construction plywood must withstand the outdoor  
8 elements and are typically made with phenol  
9 formaldehyde resin systems, they also have no  
10 formaldehyde emissions from these products because of  
11 the PF systems that are being used.

12 Wood panel products labeled PS1 are supposed  
13 to be construction grade plywood and nonformaldehyde  
14 emitters. Now, some Chinese producers mislabel  
15 hardwood plywood as PS1, construction plywood, and  
16 when tested it fails the boil test and falls apart.  
17 It also fails the carbon emission standard, even  
18 though labeled claiming that it meets it and PS1.

19 Let me be clear. A construction plywood  
20 claim is devious work to get around to a lower duty,  
21 5.1 percent on softwood plywood, avoid CARB and soon  
22 the EPA formaldehyde regulations and those associated  
23 costs. Examples are right up there.

24 There are reports now from the EU that the  
25 duty free coniferous plywood quota has shot up 64

1 percent, raising questions about imports from China  
2 and Malaysia. The U.K.'s TTF reiterated that traders  
3 should only declare products under the quota if  
4 they're fully coniferous throughout the plywood. Now,  
5 Chinese poplar doesn't qualify under that quota  
6 system, and TFF has indicated that there's a possible  
7 trader ignorance about poplar or that traders are  
8 deliberately misdeclaring products.

9 Others labeled underlayment PS2 products.  
10 Labeled when tested, many violate the formaldehyde  
11 emission standard even though they claim to be  
12 compliant. They also fail the four hour soak test,  
13 and none of these mislabeled products are third party  
14 certified. They're just simply self-made  
15 declarations. These products aren't PS2 underlayment,  
16 but thin line plywood can be used for floor  
17 underlayment and also laminated for nonflooring  
18 applications such as paneling. As a class, you could  
19 call it tropical hardwood plywood, but its hardwood  
20 plywood nonetheless.

21 The face veneer thickness assertion is  
22 simply a red herring. You buy it because of the look  
23 and the thickness. This is U.S.-made, less than .4 of  
24 veneer thickness; Chinese-made, .4 veneer thickness.  
25 You can't tell the difference. You're buying the

1 look.

2 Hardwood plywood is sold on the basis of the  
3 overall thickness, nominal values like three-quarter  
4 inch, half-inch, quarter-inch, et cetera, or its  
5 metric equivalent. And that's actually specified in  
6 our ANSI standard.

7 Thickness in internal veneers, face veneers,  
8 and backs will and can vary. Species density is a  
9 factor. So in a less dense species like Fuma, these  
10 veneers compress more than a harder species like  
11 birch, for example, in a hot press. HP1 acknowledges  
12 that if you cut a higher-value facing back veneer log  
13 thinner, you get more yield and you make this up, and  
14 the interply is more or thicker.

15 Walnut and cherry in the U.S. have typically  
16 been cut thinner. The one-step and the two-step  
17 process are both used in the United States. China is  
18 not unique in that regard. Thinner faces may have  
19 performance limitations such as sanding, telegraphing,  
20 exposing of glue line, and you've got an example of it  
21 up there that claims CARB compliance. The exposed  
22 glue line failed.

23 I've never seen a label on Chinese hardwood  
24 plywood that specified a thin-faced veneer. This  
25 hardwood plywood is .4 millimeter or .3 millimeter

1 face. I've never seen that. What I do see are  
2 nominal thicknesses designated three-quarter inch,  
3 23/32ns, half-inch, et cetera, or in millimeters, 5.0,  
4 5.5, 9.0, 15.

5 The real issue is the overall thickness of  
6 the panel. If it isn't three-quarters of an inch,  
7 24/32nds, but the panel is labeled 23/32nds, which is  
8 0.72 inches, but it actually measures 0.708 inches --  
9 or look at the metric value. It's not 18.4  
10 millimeters. It's 17.9. As my baker grandmother used  
11 to tell me, you shorted the loaf. Or it's the race to  
12 the bottom.

13 Another technique to avoid the 8 percent  
14 duty on hardwood plywood is not -- it's not an  
15 uncommon practice to have the birch back declared as  
16 the face. Birch faces have a zero tariff in the U.S.

17 The back will be oak, cherry, hickory, walnut. The  
18 pallet flips in the United States, and it's sold with  
19 its true decorative face.

20 We have seen this in products labeled as  
21 underlayment and hardwood plywood. We've often  
22 fielded questions from Customs on these types of  
23 matters.

24 China is the largest log consumer in the  
25 world, and in that volume China is also the world's

1 largest purchaser of illegal logs. It's estimated by  
2 EIA and Chatham House, who track closely the trade in  
3 illegal logging, that 17 percent of these illegal logs  
4 are used in the hardwood plywood sector. Another  
5 recent report put the value of illegal wood in  
6 hardwood plywood at 34 percent of the overall value.

7 Trade in stolen good and accurate reporting  
8 of those transactions are mutually exclusive terms.  
9 Does a thief file his 1040 taxes? I think not. EIA,  
10 WWF, Interpol, Greenpeace, and other angles focus on  
11 this trade. And the value of illegal logs in global  
12 trade is estimated to be \$3.2 billion. If half of  
13 that goes into China, same as the legal portion, then  
14 a third of the value of China's wood consumption is  
15 illegal and deeply discounted.

16 Just like the retail jeweler can't compete  
17 with the sidewalk seller of a stolen Rolex, neither  
18 can U.S. manufacturers who pay fair market value for  
19 their logs. To add insult to injury, China buys  
20 hardwood logs in the U.S., can afford to bid the  
21 prices higher. When they're veneered in China, they  
22 come back in the U.S. as hardwood and decorative  
23 plywood, American oak, American maple, walnut, cherry,  
24 hickory.

25 Oh, and another example of Chinese plywood

1 labeled American oak. When they did DNA testing, it  
2 was confirmed that it was actually Russian oak, which  
3 misrepresents the country of harvest and raises a  
4 concern that the higher illegal risk of Russian versus  
5 American logs is hidden.

6 There is a pattern here of not playing by  
7 the rules and avoiding the cost. We saw even with the  
8 temporary imposition of the antidumping countervailing  
9 duty rates on Chinese imports result in more domestic  
10 manufacturing and imported from other countries bounce  
11 back as well.

12 It's clear evidence Chinese hardwood plywood  
13 has distorted the free and fair market for these  
14 products, and unfair trade has hurt us all. Thank  
15 you.

16 MR. LEVIN: Thank you, Kip. Before we move  
17 to our final witnesses, may I ask how much time we  
18 have remaining on our panel?

19 THE CLERK: You have 15 minutes remaining.

20 MR. LEVIN: Thank you. Our next witness  
21 will be Mr. Jim Dougan of Economic Consulting  
22 Services. Jim?

23 MR. DOUGAN: Good morning. I'm Jim Dougan  
24 from ECS. Respondent's case essentially relies on the  
25 arguments that, one, competition between the subject

1 imports and domestic hardwood plywood is highly  
2 attenuated; and two, that imports from China compete  
3 almost entirely with nonsubject imports.

4 The record evidence doesn't support these  
5 claims, and the experience following the filing of the  
6 case reveals the true nature of the degree to which  
7 subject imports compete with domestic merchandise, are  
8 injuring the domestic industry, and threaten it with  
9 future injury if trade remedy is not provide by the  
10 Commission.

11 Respondent's attenuation arguments place a  
12 great deal of emphasis on veneer thickness as a  
13 distinctive physical characteristic of imported versus  
14 domestic plywood. But as you've heard from the  
15 industry witnesses, veneer thickness is only one of  
16 many physical characteristics on which purchasers base  
17 their decisions, if they base their decisions on it at  
18 all.

19 Importers' responses to the pricing sections  
20 of the questionnaire indicate that they view thin  
21 veneer products as competitive with domestic plywood,  
22 with otherwise similar characteristics, regardless of  
23 veneer thickness. My colleague, Bruce Malashevich,  
24 will present further evidence regarding subject  
25 imports' competitive overlap with domestic plywood and

1 their injurious price effects.

2 Respondents claim also that their sales are  
3 more focused on plywood with thinner overall  
4 thicknesses. This is important because in nearly all  
5 applications in which hardwood plywood is used, the  
6 functional role of the plywood is determined by the  
7 overall thickness of the plywood. And on this  
8 dimension, the record evidence on the abundant  
9 competitive overlap is clear. See slide 1.

10 Over the POI, a virtually identical share of  
11 domestic and Chinese HGP was sold in thicknesses  
12 between 6.5 millimeters and 15.99 millimeters, 20.8  
13 percent for the domestic industry and 19.8 percent for  
14 subject imports.

15 Thicknesses between 16 millimeters and 19.99  
16 millimeters accounted for 56.3 percent of domestic  
17 shipments, and 26.2 percent of subject imports, still  
18 a substantial overlap. Therefore, notwithstanding  
19 Respondent's emphasis on subject imports focused on  
20 very thin plywood, three-quarters of domestic  
21 shipments, or 77 percent, and nearly half of subject  
22 import shipments, 46 percent, fall between thicknesses  
23 of 6.5 millimeters and 19.99 millimeters. This  
24 overlap is even more pronounced when each range of  
25 thickness is viewed as a distinct market segment in

1 which domestic producers and subject imports would  
2 have market shares. See slide 2.

3 Even for products where either the domestic  
4 industry or subject imports are relatively more  
5 concentrated, the other has a substantial presence.  
6 For example, in thicknesses 20 millimeters and above,  
7 despite a relatively high domestic concentration,  
8 subject imports still supplied 19.8 percent of the  
9 volume over the POI>

10 Likewise, despite the relatively high  
11 subject import concentration in thicknesses below 6.5  
12 millimeters, the domestic industry supplied 21.9  
13 percent of the volume over the POI.

14 The other segments show a much greater  
15 overlap. In thicknesses 6.5 millimeters to 15.99  
16 millimeters, there is a 43 percent domestic, 57  
17 percent subject import split, and in thicknesses from  
18 16 millimeters to 19.99 millimeters, there is a 61  
19 percent domestic, 39 percent subject import split.  
20 This constitutes very substantial overlap in a wide  
21 range of applications and shows that Respondent's  
22 theories of attenuated competition are contradicted by  
23 the weight of the record evidence.

24 Clearly, subject imports do compete to a  
25 large degree with domestic plywood, and they do so

1 primarily on the basis of price. There is a wealth of  
2 narrative responses from purchases presented at  
3 Petitioner's prehearing brief, pages 19 to 23, that  
4 show the significance of price in their hardwood  
5 plywood purchasing decisions, and about how they vary  
6 purchases among suppliers over time based on the  
7 prices offered.

8           There may be certain end-use applications  
9 for which there is a functional or other nonprice  
10 reason for the purchaser to select Chinese plywood.  
11 But these limited applications do not explain the  
12 sheer volume of subject imports, which increased by  
13 21.5 percent from 2010 to 2012, and their market  
14 share, which began the POI at over 40 percent and grew  
15 to nearly 50 percent before the filing of the petition  
16 in late September 2012.

17           The Commission is familiar with examples of  
18 products that are truly differentiated from the  
19 domestic merchandise. Since these products would be  
20 largely unavailable from the domestic industry and do  
21 not compete on the basis of price, there tends to be  
22 little change in subject import volume after the  
23 filing of a trade case. That is not what happened  
24 here. See slide 3.

25           After the filing of the petition, the

1 subject imports dropped 27 percent in the next  
2 calendar quarter, 21 percent in the quarter after  
3 that, and 26 percent in the quarter after that. In  
4 all, subject import volume dropped by 29 percent  
5 between the first half of 2012 and the first half of  
6 2013.

7 The importers slammed on the brakes. This  
8 would not be the case for a differentiated product  
9 sold primarily on the basis of nonprice factors. But  
10 it is consistent with an undifferentiated product sold  
11 on the basis of price. The severe drop in subject  
12 import volume is strong evidence of Chinese customers'  
13 price sensitivity.

14 The drop in subject import volume has led to  
15 a number of improvements in the domestic industry's  
16 condition. In a sense, the domestic industry's  
17 improved health since the filing of the case is a  
18 photo negative which allows the Commission to see the  
19 injury the industry suffered earlier in the POI, which  
20 may not otherwise be so readily apparent from the  
21 data.

22 As Messrs. Thompson and Oglesby testified  
23 earlier, the domestic industry's inability to sell its  
24 lower grade HDP output undermines its entire economic  
25 structure. The recovery of at least some of this

1 volume after the filing of the case has yielded  
2 substantial benefits. See slide 4.

3 Respondents claim that the market share  
4 gains by subject imports were all at the expense of  
5 nonsubject imports. Yet the share lost by subject  
6 imports between the interim periods was replaced by  
7 both domestic producers and nonsubject imports.  
8 Domestic producers' U.S. shipments increased by 13.1  
9 percent, and their market share increased by 3.6  
10 percentage points.

11 The filing of the case had other beneficial  
12 effects as well, especially on prices. While the  
13 underlying data are largely confidential, Exhibit 8 to  
14 Petitioner's prehearing brief shows the difference in  
15 trends for domestic producer prices before and after  
16 the filing of the case. Slide 5 shows the increase in  
17 subject import prices after the filing of the case.

18 The impact is apparent. There were double  
19 digit percent increases for all but one pricing  
20 product. Had imports from China not been competing  
21 primarily on the basis of price prior to the case, it  
22 is unlikely that you would observe such substantial  
23 increases after the filing of the case. These pricing  
24 improvements were also manifested in the domestic  
25 industry's financial data, where average unit net

1 sales value increased from \$1.14 to \$1.16 per square  
2 foot between interim 2012 and 2013. See slide 6.

3 This may seem like a small improvement, but  
4 given the domestic producers' unit COGS remained flat  
5 at \$1.03 between the interim periods, these increased  
6 prices flowed through directly to the domestic  
7 industry's bottom line, leading to improved operating  
8 income. Operating income increased by 142 percent  
9 from 8.2 million in the first half of 2012 to 19.8  
10 million in the first half of 2013, and operating  
11 margin likewise more than doubled, increasing from 2.3  
12 percent to 4.8 percent between the same periods.

13 In some industries, a 2.5 percentage point  
14 increase in operating margin might not be significant.

15 But in the context of this industry, in which the  
16 operating margin began the POI in 2010 at 2.1 percent  
17 and declined to 1.6 percent in 2012, a 2.5 percentage  
18 point improvement is enormous. That it occurred  
19 precisely when subject imports declined sharply is not  
20 a coincidence, and is clearly attributable to the  
21 effects of the petition.

22 The filling of the petition also had  
23 beneficial effects on the domestic industry's  
24 employment indicia. See slide 7. The industry added  
25 as many workers between the interim periods as it did

1 over the two years from 2010 to 2012, 115 PRWs.  
2 Similarly, there were significant improvements in  
3 hourly wages and productivity between the interim  
4 periods, as compared to 2010 to 2012.

5 Finally, the filing of the petition put a  
6 temporary halt to the domestic industry's asset  
7 cannibalization by allowing it to make much needed  
8 investments. See slide 8.

9 In each year between 2010 and 2012, the  
10 domestic industry's depreciation exceeded its capital  
11 expenditures by a very significant amount, such that  
12 the industry's capex to depreciation ratio ranged from  
13 a low of 32.4 percent to a high of 69.6 percent. The  
14 industry's inability to invest to sufficiently  
15 replenish its depleting asset base is a textbook case  
16 of asset cannibalization.

17 After the filing of the petition, the  
18 domestic industry's capital expenditures more than  
19 tripled, from \$2.7 million in the first half of 2012  
20 to \$8.8 million in the first half of 2013. The  
21 industry's first half 2013 capital investments were  
22 greater than any full year from 2010 to 2012, and  
23 allowed the industry to make investments exceeding its  
24 depreciation expenses for the first time during the  
25 POI.

1           A final affirmative vote from the Commission  
2           to impose antidumping and countervailing duties will  
3           allow the industry to continue to make investments to  
4           ensure its future competitiveness, but absent the  
5           imposition of trade remedy, this improvement will not  
6           continue. Thank you.

7           MR. LEVIN: Thank you, Jim. Our last  
8           witness this morning will be Mr. Bruce Malashevich,  
9           with Economic Consulting Services. Bruce?

10          MR. MALASHEVICH: Thank you, Jeff. Good  
11          morning, Mr. Chairman and members of the Commission.  
12          Pleasure to be here.

13          I have one point to make in my five minutes  
14          of testimony, and that refers back to the Commission's  
15          unanimous preliminary determination last year. And  
16          reading that decision again, really on one of  
17          Respondent's economic arguments gained traction to  
18          warrant further investigation in this final phase, and  
19          that was the issue of the thing veneer.

20          In economist jargon, Respondents have argued  
21          that thin veneer stuff is a complement, not a  
22          substitute, to the domestic product, and therefore the  
23          two support each other rather than cause competitive  
24          harm.

25          In addition to everything you've heard so

1 far, this from the questionnaire record I think is  
2 definitive last chain in causing Respondent's  
3 arguments to fail, for the following reason. You have  
4 the confidential versions in front of you. They're  
5 directly taken from Exhibits 5 and 6 and the  
6 prehearing brief. This is the public version of  
7 Exhibit 5. Please look at your version, though.

8 The key line items are this. The total  
9 volume of imports accounted for in the Commission's  
10 questionnaire is a certain quantum of volume. This is  
11 the universe of subject imports, according to official  
12 Census trade data. The delta represents that share of  
13 total imports not covered by the importer's  
14 questionnaires received by the Commission. That share  
15 on this line is a substantial number, as you can see.

16 Now, staff through its diligence collected a  
17 lot of information on the thin veneer product, and the  
18 public version of the staff report says that for those  
19 reported subject imports in the questionnaires, nearly  
20 100 percent of those imports were characterized as of  
21 the thin veneer type. For instant purposes, I'll  
22 accept that number as accurate. But it's very  
23 interesting because it is not at all representative of  
24 the large volume of total subject imports not  
25 reflected in the questionnaire exercise. And as I

1 think we all know, there is a certain amount of self-  
2 selection that goes into those who choose to cooperate  
3 with the importers' investigation and those who don't.

4 So the first thing is we don't know what is  
5 coming in of imports not covered by the questionnaire,  
6 and it's probably a mixture of all kinds of veneer  
7 thicknesses.

8 But going back to the thin veneer, I said,  
9 well, okay, if virtually 100 percent of reported  
10 subject imports are of thin veneer, let's compare that  
11 figure to the total volume of import sales reported  
12 for pricing products one through six. Those products  
13 did not contain the thin veneer face criteria in  
14 specifying the various products. So there was a  
15 certain amount of discretion in how importers  
16 responded to the questionnaire.

17 I'm reading from a standard ITC blank  
18 questionnaire pricing products. For years, this  
19 footnote has appeared. And I quote, "If your product  
20 does not exactly meet the product specifications, but  
21 is competitive with the specified product, provide a  
22 description of your product."

23 So for a long time in answering the pricing  
24 section and analyzing prices, the Commission has never  
25 restricted reporting to identical product, but

1 products that are identical or regarded as  
2 competitive.

3 So I took that at its face, and I looked at  
4 the small volume of reported imports above the 0.4  
5 threshold, and compared it to the total volume of  
6 subject imports accounted for for products one through  
7 six. The latter greatly exceeded the residual amount  
8 that's above .4 in veneer -- face veneer thickness,  
9 which means importers collectively considered a  
10 boatload of this stuff to be competitive with products  
11 one through six they identified in the Commission's  
12 questionnaires.

13 Now, please turn to Exhibit 6 before you.  
14 So my colleagues and I drill down. Who are these  
15 importers, and did they correctly interpret the  
16 questionnaire's instructions?

17 CHAIRMAN WILLIAMSON: Mr. Malashevich,  
18 you're going to have to wrap up because --

19 MR. MALASHEVICH: You can see for yourself  
20 that all of these importers considered their thin-  
21 veneer product competitive with other products meeting  
22 that specification across the board for products one  
23 through six. Thank you.

24 CHAIRMAN WILLIAMSON: Thank you.

25 MR. LEVIN: Thank you, Bruce. Thank you,

1 Mr. Chairman. Thank you, commissioners. That  
2 obviously concludes our panel for this morning.

3 CHAIRMAN WILLIAMSON: Okay. Thank you. I  
4 first want to express our appreciation to all of the  
5 witnesses who have taken time from their businesses to  
6 come today. Your testimony is very important to us.

7 And this morning we'll begin our questioning  
8 with Commissioner Johanson.

9 COMMISSIONER JOHANSON: Thank you, Mr.  
10 Chairman. And I would also like to thank the  
11 witnesses for appearing here today. I realize some of  
12 you came a pretty long way to be here.

13 My first question will probably best be  
14 answered by Mr. Howlett. Mr. Howlett, you spoke on  
15 the issue of illegal logging. Has the Lacey Act  
16 prevented wood obtained from illegal logging from  
17 entering the U.S. market?

18 MR. HOWLETT: That's certainly the goal.  
19 But I don't think that there is an indication that it  
20 has been 100 percent effective. And a lot of that has  
21 to do with, for example, you take at face value if a  
22 problem is listed as the country of harvest that it is  
23 America. America is at low-risk. And yet if the face  
24 veneer is actually Russian, that's a much higher risk  
25 country, and that has been mislabeled. Actually, it

1 would be in violation of the Lacey Act, and yet that  
2 material came in because at Customs you have to -- I  
3 mean, we winding up taking things at face value, and  
4 that's what is important here.

5 Certainly we're still at the beginning  
6 stages. We don't have a program in place yet as to  
7 what defines consensus about doing due diligence.  
8 Actually, we at HPVA have been working to develop an  
9 ANSI standard with regard to that. The EU timber  
10 regulation is actually -- drives at the same point of  
11 trying to eliminate illegal timber. It's up and  
12 operational. And I think that between the two  
13 countries -- those are the two largest markets --  
14 you'll begin to see the closure of that market.

15 But it's not 100 percent yet. It has seen a  
16 reduction, but it has not eliminated illegal logs in  
17 trade.

18 COMMISSIONER JOHANSON: I know that there is  
19 a modification to the Lacey Act. I believe it was in  
20 the 2008 farm bill, which I think was intended to  
21 crack down more on -- to put better teeth into the  
22 Lacey Act. Did that make a difference?

23 MR. HOWLETT: Well, it added wood, and I  
24 think that again you're still in the phase of  
25 implementing regulations, but more importantly, both

1 the EU and the U.S. programs are still in their early  
2 stages. There has been one sort of high profile  
3 prosecution, and I think that one of the things that  
4 Customs as well as the development of, for example,  
5 DNA testing will facilitate enforcement of the Lacey  
6 Act.

7 But again, I'll just say it started to put  
8 pressure in reducing the volume of illegal logs, but  
9 it has not eliminated it. The EIA, Chatham House, and  
10 others still estimate that there is a substantial  
11 amount of illegal logging. Interpol recently closed  
12 down a huge ring in Latin America. WWF just reported  
13 a substantial amount of illegal logging in Russia that  
14 puts into jeopardy the habitat of the snow leopard.

15 And so there is a lot of pressure to  
16 basically harvest illegally and use those proceeds,  
17 you know, for whatever.

18 COMMISSIONER JOHANSON: Thanks. And getting  
19 back to one of the points you made, was the Lacey Act  
20 -- did that not cover wood products prior to 2008?

21 MR. HOWLETT: No, it did not.

22 COMMISSIONER JOHANSON: Okay. I didn't  
23 realize that. Okay, thank you. Yeah, I'm just  
24 surprised because I know -- I assume there is a fair  
25 amount of illegal logging, but I also know the U.S.

1 has been trying to address this issue. Okay. Thank  
2 you for your response. Oh, yes?

3 MR. HOWLETT: It's a good effort, and we're  
4 still in the early stages.

5 COMMISSIONER JOHANSON: Aren't there  
6 industry standards as well? I think I see some paper  
7 products. I think they said like FSC on the back,  
8 something like that, which I think is an industry  
9 group?

10 MR. HOWLETT: Right. And I think that there  
11 are three types of programs. There is sustainability  
12 certification, which FSC, SFI, Tree Far, PEFC address  
13 that. That basically is the source of the log coming  
14 from a sustainably managed forest.

15 There is a second kind of a program called  
16 legal verification that basically each log as it comes  
17 out of the forest almost has a SKU on it that  
18 identifies that log has having been legally harvested.

19 The Lacey Act and the EUTR are basically due  
20 diligence programs, a reasonable and prudent man kind  
21 of a standard, that you engage in due diligence to  
22 reduce -- and your goal is to obviously eliminate the  
23 risk that illegal logs are going to wind up in your  
24 supply chain. So you look at areas where it's higher  
25 risk. Certainly that eastern island in Russia has

1       been clearly identified. Clearly when Interpol makes  
2       arrests in Latin America in 12 countries, clearly when  
3       you've got studies like Seneca Creek that basically  
4       say the United States and Canada are at the lowest  
5       level of risk, you have some assurance that an  
6       American oak log is legally harvested.

7                You have to wonder about areas where it's  
8       higher risk, and that's where it's not sustainability.

9       FSC is per se not a due diligence program with regard  
10      to legality. And there have been problems with that  
11      because there are really three different kinds of  
12      programs.

13               COMMISSIONER JOHANSON: Okay. Thank you.

14               And, Mr. Levin, I have a question for you.  
15      How should the issue of illegal logging help determine  
16      the decision of the Commission? Would that be under  
17      conditions of competition?

18               MR. LEVIN: Absolutely, Commissioner. We  
19      believe, we believe strongly, we believe the evidence  
20      strongly demonstrates and implicates that the access  
21      and use of illegal or suspect-sourced wood inputs by  
22      Chinese producers and exporters is one of several  
23      factors that allows them to sell the product into the  
24      U.S. market at the margins of underselling that we are  
25      seeing in this investigation. And therefore it

1 becomes I believe a highly relevant condition of  
2 competition in evaluating the field upon which  
3 domestically manufactured product must compete against  
4 Chinese product.

5 COMMISSIONER JOHANSON: All right. Thank  
6 you for your response. Respondents submit that  
7 domestic hardwood plywood is generally not used for  
8 underlayment or in the RV industry. They state that  
9 the subject product is thinner and therefore more  
10 suited to those applications. Would one of you please  
11 respond to that? And this is something that you know  
12 the Respondents spent quite a bit of time discussing  
13 in their brief.

14 MR. CLAUSEN: I can respond to that, Mr.  
15 Johanson. We have distributors in the Elkhart,  
16 Indiana market, which is one of the largest RV  
17 manufacturing areas of the country, and we sell a  
18 tremendous amount of volume into that marketplace.  
19 For years the U.S. industry produced thin panels with  
20 paper overlays to go into the mobile home industry.  
21 All of that can be done today.

22 And the second part of the question was not  
23 only RVs, but --

24 COMMISSIONER JOHANSON: Underlayment.

25 MR. CLAUSEN: Oh, underlayment.

1 Underlayment, one of -- I know the Georgia Pacific  
2 plant that was in Savannah, Georgia and in Eugene,  
3 Oregon, that is now -- one has been sold in Georgia,  
4 and the one in Oregon is now owned by the Murphy  
5 Company -- produced tremendous amounts of underlayment  
6 in thin-panel form, roughly quarter-inch panels, and  
7 was done for years and years, so --

8 COMMISSIONER JOHANSON: All right. Yes, Mr.  
9 Howlett?

10 MR. HOWLETT: One of the points that I'd  
11 just like to add is you have examples up here of  
12 products that are labeled underlayment, and they are  
13 also labeled as being PS2, which is the construction  
14 plywood underlayment standard. And I would just point  
15 out that every one of those products up there,  
16 including one that was labeled actually PS1  
17 construction plywood, and when you look at it, it's  
18 pretty clear that it's hardwood plywood, they all  
19 failed the boil test, that is, they delaminated.

20 Several of them are claiming that they are  
21 either exempt from the formaldehyde rules or they have  
22 passed the formaldehyde rules. And in those  
23 circumstances, we had three failures and three pass.  
24 So how you label those things and misusing  
25 underlayment, PS1, PS2, those are the examples up

1       there. And certainly it's very clear from the samples  
2       over on the left, which are U.S. manufactured, you can  
3       see that we're manufacturing products that are like  
4       those products that were tested there. They're  
5       substitutable to each other.

6               MR. DOUGAN: Commissioner Johanson?

7               COMMISSIONER JOHANSON: Yes.

8               MR. DOUGAN: Jim Dougan from ECS. If I may  
9       add to that, the language often in Respondent's brief  
10      on these matters is quite careful. It often says, you  
11      know, domestic products are not sold or do not sell to  
12      these particular end-use applications. But it doesn't  
13      mean that they cannot. It just means that they maybe  
14      at a particular time do not because they're not  
15      willing to meet the low price of the Chinese product.

16              But as the distribution of thicknesses for  
17      overall plywood thickness shows, the domestic  
18      producers certainly can and do sell at the lower  
19      thicknesses.

20              COMMISSIONER JOHANSON: All right. Thank  
21      you for your responses. My time has expired.

22              CHAIRMAN WILLIAMSON: Thank you.

23      Commissioner Broadbent?

24              MR. LEVIN: Mr. Chairman, if I may.

25              CHAIRMAN WILLIAMSON: Yes.

1           MR. LEVIN: My apologies. I did want to  
2 introduce before we started with the questions and  
3 answers -- we have two other industry witnesses. They  
4 didn't preset affirmative testimony. They have been  
5 sworn in. They are available to respond to questions.

6       Mr. Pat Lynch, who is the plywood business director  
7 for Roseburg Forest Products; and Mr. Mike Taylor, who  
8 is the CEO of States Industries, both petitioning  
9 companies.

10           My apologies for not doing that at the  
11 outset.

12           CHAIRMAN WILLIAMSON: Okay. And they can  
13 raise their hand if they want to supply something to a  
14 question. Thank you. In response to a question.  
15 Thank you.

16           COMMISSIONER BROADBENT: Thank you.

17           CHAIRMAN WILLIAMSON: Commissioner  
18 Broadbent, yeah.

19           COMMISSIONER BROADBENT: Thanks. I want to  
20 thank the witnesses for their testimony and coming to  
21 speak with us today. On the formaldehyde issue, Mr.  
22 Howlett, can you describe to me how that works? I  
23 mean, who is certifying that as formaldehyde free, and  
24 what is the storage on the imports?

25           MR. HOWLETT: The state of California was

1 the first to put in to place recently formaldehyde  
2 restrictions. Actually, if you back to 1984, HUD had  
3 the first emission standards for these products.

4 COMMISSIONER BROADBENT: Right.

5 MR. HOWLETT: Particle board, MDF, and  
6 hardwood plywood, but only as it related to their use  
7 in mobile homes. So California basically was the  
8 first one about four years ago to put into place  
9 emission requirements on those four types of products.

10 Subsequently, Congress passed a law, and EPA  
11 has proposed rules to implement that law. We would  
12 expect that in 2014 the EPA formaldehyde regulations  
13 will be finalized and probably be fully implemented by  
14 2015.

15 The emission levels that are in the federal  
16 statute are identical to the emission levels in the  
17 California rate. The fact that manufacturers  
18 basically don't want to double inventory, that is,  
19 create products only for sale in California, and then  
20 make a different type of material for the other 49  
21 states, basically the California standard has become a  
22 de facto national standard.

23 In the hardwood plywood industry, over 50 to  
24 60 percent of the hardwood plywood now manufactured is  
25 not using formaldehyde technologies. The other 35

1 percent uses urea formaldehyde or other technologies  
2 like polyvinyl acetate. Irrespective of what resin  
3 systems that you're using, as a third party  
4 certification agency, I'm proud to say that the  
5 domestic manufacturers, probably 75 percent to 80  
6 percent have now got emissions so low with any of  
7 these resin systems, certainly the formaldehyde free,  
8 the Soyad systems, but even the urea formaldehyde and  
9 the PVAs have all qualified for exemption.

10 Eighty percent of the domestic product, I  
11 would say, is exempt. The balance is in an emission  
12 quality control program in ISO-65, which is required  
13 in the regulations. In the regulations, they specify  
14 in CARB that if you're PS1 or PS2, it's assuming that  
15 you're using a phenol formaldehyde. You've got to  
16 cure those resins harder, longer, and hotter in the  
17 press, and basically it cures and cooks out all the  
18 formaldehyde, so there is no formaldehyde emissions  
19 from a PF resin system.

20 Construction plywood, softwood plywood, that  
21 material right there will be basically exempt because  
22 it uses a PF system. What you have here are claims of  
23 being PS1 or PS2, and ironically some of the labels on  
24 here claim both PS1, which if someone, an enforcement  
25 person, were to look at that and say, oh, PS1, it's

1 exempt, and assume that it meets the formaldehyde  
2 standard, some of the labels on there also say that  
3 they're CARB-2 compliant.

4 And as I mentioned, you have three of those  
5 that actually failed. A couple of the samples up  
6 there were four times the limit. And formaldehyde has  
7 been regulated, as I said, since 1984. And this  
8 industry, the domestic hardwood plywood industry,  
9 basically doesn't have a formaldehyde issue because of  
10 our compliance record.

11 COMMISSIONER BROADBENT: So if you're  
12 exempt, they do not monitor your manufacturing of it.  
13 Is that right?

14 MR. HOWLETT: Exactly, right. So that can  
15 be a self-made claim. And as we see here, it's a  
16 claim that when you actually take samples of the  
17 product and test it, it doesn't pass.

18 COMMISSIONER BROADBENT: Right. So but it  
19 just sounds like a lot of your problem here is  
20 circumvention and misrepresenting the standards  
21 associated with a product.

22 MR. HOWLETT: I would agree with that.

23 COMMISSIONER BROADBENT: Okay. And just one  
24 more --

25 MR. LEVIN: If I may.

1 COMMISSIONER BROADBENT: Yeah.

2 MR. LEVIN: Madame Commissioner, that along  
3 with illegal logging is another aspect of the  
4 conditions of competition. The circumvention of CARB  
5 certification of course lowers a foreign producer and  
6 exporter's cost, another factor that allows them to  
7 bring product into the United States at a cheaper  
8 price than domestically manufactured product that is  
9 going through the rigorous CARB certification process.

10 COMMISSIONER BROADBENT: Okay. So how does  
11 the production process apply to an import in terms of  
12 the restrictions on the production process? What can  
13 we do to an import on its emission levels if that  
14 happens in the production process?

15 MR. HOWLETT: Right now, if you're importing  
16 into the state of California, you have to meet the  
17 CARB limits.

18 COMMISSIONER BROADBENT: Meaning how you  
19 produced it in China.

20 MR. HOWLETT: Exactly. You have to meet it.  
21 And in fact, at the 660 mills that manufacture  
22 hardwood plywood in China, over 400 are on the CARB  
23 list as capable and certified to make CARB-compliant  
24 hardwood plywood that would meet the emission  
25 standards.

1           MR. LEVIN: And I was going to add that  
2 point because that touches on several areas here, the  
3 representation of the foreign producers through  
4 questionnaire responses and directly through  
5 importers' questionnaire responses, and hence what  
6 sort of import volume the Commission is looking at.

7           There are hundreds of Chinese producers that  
8 have at least gone through the CARB certification  
9 process. Now, we can't ascertain one way or another  
10 whether each one of those companies has actually  
11 exported to the United States. But what we can say  
12 with certainty is that we're looking at 400-some odd  
13 companies that have gone through the bother of CARB  
14 certification, and we have, what, 89 or so foreign  
15 producers that have submitted questionnaire responses.

16           COMMISSIONER BROADBENT: Okay, great. Thank  
17 you. This is a question for Mr. Roberts in the back  
18 row there. I really appreciated your testimony. Why  
19 don't you -- could you talk a little bit about why you  
20 don't purchase Chinese hardwood plywood anymore?

21           MR. ROBERTS: Yes, Commissioner. When I was  
22 in China, the first mill I went to was in northern  
23 China, north of Beijing, and they had -- you could  
24 tell it was a Chinese plywood plant there because they  
25 were drying the veneers in the field like cotton. We

1 walked into the plant. There was approximately six  
2 30-watt light bulbs. They had a six-opening press,  
3 and since they couldn't dry the veneer, they used more  
4 formaldehyde. And the more formaldehyde you use, the  
5 odor -- I walked out of there very high.

6 They also had no way of properly heating the  
7 building. They used slag coal. It was like  
8 antiquated compared to an American mill. But, I mean,  
9 if you don't -- if you -- you have to dry that glue,  
10 get that veneer very dry, keep the moisture content so  
11 it won't warp.

12 I was at one mill. They opened the vans,  
13 and everything went -- it went right up there because  
14 the veneers aren't properly dried. They don't have  
15 dryers there. American mills spend millions and  
16 millions of dollars on dryers. So when it comes out  
17 off the -- when the veneer is peeled, the log is  
18 peeled, it goes into the dryer. They bring it down to  
19 I think about a 6 to 8 percent moisture content, and  
20 that, what they're using now with the NAUF glue will  
21 keep that panel a lot more stable, but it also takes  
22 all that formaldehyde out of the product.

23 That is why California passed the CARB-2  
24 bill, which is basically the industry standard, and  
25 the new federal law coming in will be even stricter.

1 And I believe in the health and safety of my employees  
2 and my customers.

3 COMMISSIONER BROADBENT: Okay. Now, do you  
4 purchase hardwood plywood from other countries? Is  
5 that --

6 MR. ROBERTS: Yes, ma'am. I do deal quite  
7 often with mills in Canada, which is basically they  
8 have the same standards we do. I buy a lot of high-  
9 end, exotic lumber and veneer in Germany and Italy,  
10 and I have been -- I deal with one finish mill for the  
11 last 36 years.

12 COMMISSIONER BROADBENT: Okay.

13 MR. ROBERTS: But they all -- all that is  
14 PFEC, Pan-European -- I'm not sure of the exact, but  
15 it's the European certification. But we only deal  
16 with legitimate mills. Everything -- when we get a  
17 container in, we have to go through -- it has to go  
18 through Customs. It has to go through Lacey. It has  
19 to show the country of harvest, the country of origin.

20 We keep all those records in case anyone ever comes  
21 in, open the file. Here it is, everything you want.

22 You know, we tend to -- our products, our  
23 speciality is high-end, exotic plywood. If you want  
24 to look up a web site, robertsplywood.com, my very  
25 beautiful daughter did a lot of hard work on that.

1 But that's where we want to separate ourselves from  
2 some of our competitors. And I just don't feel the  
3 Chinese have the quality that I want to sell to my  
4 customers.

5 COMMISSIONER BROADBENT: Thank you.

6 This is for Mr. Clausen. Tell me how  
7 customers choose between hardwood and softwood. What  
8 do they prefer and why for what uses?

9 MR. CLAUSEN: Hardwood and plywoods --

10 COMMISSIONER BROADBENT: Hardwood and  
11 softwood plywood.

12 MR. CLAUSEN: In most situations, softwood  
13 plywood is used for construction purposes. Certainly  
14 the West Coast and the Southeast, where there is  
15 softwood indigenous forests, the construction plywood  
16 is almost entirely softwood plywood.

17 And the hardwood plywood, it's a little bit  
18 of a misnomer. It's hardwood plywood face and back,  
19 and sometimes a softwood core, sometimes a hardwood  
20 core. So in that sandwich that I was describing --

21 COMMISSIONER BROADBENT: Right.

22 MR. CLAUSEN: -- the inner part of the  
23 plywood, if it's produced, for instance, at Columbia  
24 Forest Products' mill in Old Fort, North Carolina,  
25 there can be a poplar core. If they produce it in

1 their Oregon plant, they now have a peeling facility  
2 that's peeling poplar for the core of that product.

3 Timber products uses primarily a softwood  
4 core, and we have forest lands where we actually are  
5 logging and doing softwood core with a hardwood face  
6 and back. But we also produce construction plywood as  
7 well, and that's typically under APA grade rules that  
8 Mr. Howlett was describing in his testimony, and it's  
9 used for sheathing on roofs and the siding and  
10 underlayment and some other products of that type.

11 COMMISSIONER BROADBENT: Okay. Thank you.  
12 I'm really interested in this inside-of-the-sandwich  
13 issue, but my time has run out, so I'll get you on the  
14 next time around. Thank you.

15 MR. HOWLETT: Mr. Chairman, may I approach  
16 the bench and give you some softwood plywood to look  
17 at?

18 COMMISSIONER BROADBENT: You can approach  
19 me. That's great, yeah.

20 (Laughter.)

21 CHAIRMAN WILLIAMSON: And she can pass it on  
22 down afterwards. Okay.

23 MR. LEVIN: Mr. Chairman, Madame  
24 Commissioner, whether in response to another question  
25 or if you allow me to do so now, there are some tricky

1 and often confusing terminology in the industry  
2 regarding hardwood and softwood. We've gone through  
3 this in many -- should I go on?

4 CHAIRMAN WILLIAMSON: Go ahead. Finish,  
5 yeah.

6 MR. LEVIN: We've gone through many, many  
7 supplemental submissions, particularly at the  
8 beginning of this process, supplemental submissions to  
9 the petition, especially in response to some standing  
10 challenges that the AAHP had posed at the beginning of  
11 this investigation.

12 And the industry guys and the products guys  
13 can talk about this in a much more educated fashion  
14 that I can, but one simple point. The product that is  
15 known as hardwood and decorative plywood, the product  
16 that is the subject merchandise that is the scope of  
17 this investigation can and often does have softwood  
18 species as part of that product.

19 Oftentimes a softwood species is part of the  
20 core. On occasion it could be the face veneer. Now,  
21 the fact that a hardwood and decorative plywood  
22 product contains one or more layers of a softwood  
23 species does not make it softwood plywood. Softwood  
24 plywood is an entirely different animal, synonymous  
25 with structural plywood, much of what Kip was just

1 talking about and Mike was alluding to, about what  
2 they produce. Different products, different end uses,  
3 different standards, different industries.

4 So the word "softwood" can mean different  
5 things, and it can get very confusing very fast as to  
6 what any particular person may be referring to when  
7 they use the term softwood. And I just ran out of my  
8 technical expertise.

9 CHAIRMAN WILLIAMSON: Okay. Thank you.  
10 Just continuing on with that, so you're saying there  
11 is not a percentage of softwood that can be in a  
12 hardwood plywood to change it? It's all the use?

13 MR. THOMPSON: Yeah. I think this gets  
14 really confusing, and I think Mike did a good job.  
15 When we refer to the decorative hardwood plywood,  
16 we're talking about the appearance, the face and the  
17 back. It's used in decorative applications. That  
18 maple, birch, and red oak generally comes in the  
19 United States from a concentrated area.

20 In the Northeast, Joe has a mill in  
21 Michigan, we have one in Wisconsin. Those decorative  
22 faces are made for decorative plywood and shipped  
23 across the country to form what we call and what the  
24 industry calls and what the industry standard  
25 recognizes as hardwood decorative plywood, face and

1 back.

2 Now, the interplys, the core material, can  
3 be made with varying materials. In the West, we use a  
4 combination of poplar and we use a combination of fir,  
5 which is a softwood, technically. In our mills in  
6 North Carolina, because of where the mill sits, we use  
7 poplar. The core material used within the material  
8 could be of softwood or of hardwood, and typically  
9 related to where the mill sits in its wood basket in  
10 the United States.

11 I think I've got that.

12 CHAIRMAN WILLIAMSON: But there is no  
13 dispute that that's subject product, that it's the  
14 subject product that of this investigation.

15 MR. THOMPSON: Yes, yes.

16 CHAIRMAN WILLIAMSON: Okay. Thank you. I  
17 was going to turn to Mr. Roberts because you say you  
18 don't use any Chinese product. Are you trying to sell  
19 to sort of say quality cabinetmakers or other end  
20 users who -- where the -- that's a higher end, sort  
21 of, you know, the high end of the market?

22 MR. ROBERTS: We sell both ends of the  
23 market, but we concentrate on the higher end of the  
24 market. As you well know, being from New York, there  
25 is a lot of big office buildings, and now especially

1 hopefully we'll have the World Trade Center start  
2 rebuilding, and these corporate offices want high end  
3 materials.

4 We also sell a lot of birch, okay, cherry,  
5 maple, to people -- you know, we have the whole  
6 gambit, we have. But we sort of tend to go there.  
7 But the reason I didn't buy the Chinese was strictly  
8 on a quality, and especially with the formaldehyde. I  
9 mean, I'm very sensitive. I'm not a smoker. And when  
10 I walk in a place and all of a sudden my eyes start  
11 tearing and my nose gets -- that's not the kind of  
12 material I want to buy. And I don't want to sell it  
13 to my customers. We are very particular.

14 I limit the amount of domestic mills.  
15 Basically I deal with three domestic mills buying my  
16 hardwood plywood, and two of the gentlemen are here  
17 today. I try to buy the best product available. I  
18 won't buy -- I don't buy a product on price. That's  
19 why Chinese birch -- I've had people offer me, well,  
20 what do you want to pay. If somebody tells like that,  
21 I'm going to get screwed. I just don't want to touch  
22 a product like that. I want to buy a quality product  
23 and sell it to my customer as a quality product.

24 CHAIRMAN WILLIAMSON: So any idea what  
25 percentage of the market, you know, the customers, are

1 demanding that? And I'll give you a little side story  
2 because --

3 MR. ROBERTS: Okay. On the high -- oh, I'm  
4 sorry.

5 CHAIRMAN WILLIAMSON: Go ahead.

6 MR. ROBERTS: On the high end, you know, we  
7 have the Hamptons. You know, we have Fifth Avenue.  
8 We have apartments where people -- we had one  
9 customer, it was ninety-some-odd thousand dollars just  
10 for hardwood flooring in an apartment. We have people  
11 that build expensive -- whatchamacallit. We just sold  
12 to a customer who built their conference table in an  
13 office in New York City, and it was -- my selling  
14 price was \$25,000. The wood was 3 inches thick, 6  
15 feet wide, 18 feet long. He made a 50-foot conference  
16 table and had to cut off the two ends. We have a lot  
17 of unique products.

18 But, I mean, on this particular, when I'm  
19 buying material from Columbia or Timber Products, I  
20 know what I'm getting, and I know there is a quality  
21 standard. These companies have been in -- I only like  
22 to deal -- I don't want to deal with a company who is  
23 in business six months. I want someone who I know is  
24 going to be there tomorrow.

25 Columbia Timber Products have been in there

1 many, many years. I have a long work -- you know, in  
2 42 years I've developed a long working relationship,  
3 and I know what I'm getting.

4 CHAIRMAN WILLIAMSON: I understand that. I  
5 guess what maybe some of the others have to -- how  
6 large -- what percentage of the market? Can you  
7 survive on that market? I get the impression you  
8 can't.

9 MR. ROBERTS: Yes. That's it.

10 CHAIRMAN WILLIAMSON: I mean, you can  
11 because you know who you are, and you've got a niche.

12 MR. ROBERTS: You don't sell the high end  
13 every day.

14 CHAIRMAN WILLIAMSON: Yes.

15 MR. ROBERTS: So you need to sell that part  
16 of the market every day.

17 MR. THOMPSON: Maybe I can help with this.

18 CHAIRMAN WILLIAMSON: Yeah.

19 MR. THOMPSON: As we stated in our  
20 testimony, when we spin a log, when anyone spins a  
21 log, you have what God gave you. And within the log  
22 there are various grades. Imagine as Wave described  
23 it, a roll of paper towels. That's the log. And we  
24 literally -- a knife comes and peels it, and it looks  
25 like a ribbon of thin paper. But in this case, it's

1 veneer.

2 And depending upon where you are in the log,  
3 you have different grades of material. You have to  
4 sell all of the log. You can't just sell the high  
5 grade and throw away the low grade. If you did that,  
6 then you have to raise the cost or raise the price of  
7 the high grade to an exorbitant amount of money, and  
8 people won't buy it. And it's what happened to our  
9 industry because of the low-grade influx from China.

10 So it is a huge problem in terms of the  
11 dynamics of our industry because we have to sell  
12 everything that comes off that log, and it produces  
13 various different grades, much of which is of low-  
14 grade material.

15 CHAIRMAN WILLIAMSON: And I assume the  
16 various -- depending on the log, as to what percentage  
17 of what you get out of is going to --

18 MR. THOMPSON: Oh, sure, it does. But there  
19 is no log, for example, that will give you all A  
20 grade. That's very -- that's a small portion of the  
21 log itself.

22 CHAIRMAN WILLIAMSON: And are you saying  
23 that Chinese -- they get the same results, I assume,  
24 off their logs?

25 MR. THOMPSON: They do, yes.

1                   CHAIRMAN WILLIAMSON: Yeah. Okay. And  
2 they're selling all of this -- they're dumping all of  
3 it, I think is what the contention is here.

4                   MR. THOMPSON: Absolutely. They've started,  
5 I think, in the low grade and now are moving up the  
6 channel. But keep in mind, I think it's important to  
7 know where you have markets to move your wood. And so  
8 we have but one market in the United States, and so we  
9 have to sell the mix of that log. I'm not quite sure,  
10 and I can't speculate on how the Chinese move their  
11 mix. In some cases, you know, it would be  
12 speculation.

13                   CHAIRMAN WILLIAMSON: Are you seeing any  
14 trends in terms of demand in the U.S. for the  
15 different grades? I imagine it varies in use, but  
16 cabinetry, since cabinetry is one-third of it -- while  
17 you're thinking of it, I once had a cabinet. The  
18 first time we did a kitchen, 20 years later, the  
19 cabinet fell off the wall. And I said, wait, this  
20 stuff is cheap. So you can imagine what kind of  
21 cabinet I went for the second time around. And I've  
22 been very curious about -- you know, people talked a  
23 lot about thinness and all that. But I assume that  
24 anybody who wants to go out and buy something, you're  
25 looking for something that's going to last and be

1 sturdy. But it depends on their -- you know, how much  
2 they can afford as to how sturdy it is. Sometimes  
3 they go to Mr. Roberts back there, but a lot of times  
4 they can't.

5 So can someone address that in terms of what  
6 trends we're seeing and how do we take that into  
7 account here?

8 MR. OGLESBY: What I would tell you is low-  
9 grade hardwood plywood in this country for the first  
10 20 years that I worked for Columbia Forest Products  
11 was primarily used for the interior parts of cabinetry  
12 that you don't see.

13 Let's take this podium, for instance.  
14 Inside that podium, where you can't see it, would be  
15 used for low-grade pieces of hardwood plywood, the D  
16 and the C. The outside or the areas that you see of  
17 this podium are the high grades.

18 Now, as Brad pointed out, a log will only  
19 generate a percent of 10 or 12 or whatever --

20 CHAIRMAN WILLIAMSON: Can I cut you off for  
21 a second?

22 MR. OGLESBY: Yes, please do.

23 CHAIRMAN WILLIAMSON: But that D and C, the  
24 strength of it, or the durability of it, it's not  
25 going to be less strong or less durable than say an A.

1                   MR. OGLESBY: No. It's the exact same --  
2 let's go back again.

3                   CHAIRMAN WILLIAMSON: Okay.

4                   MR. OGLESBY: When I meant -- when I said A,  
5 B, C, and D, think of it this way. An A grade of  
6 veneer -- you know a limb that comes out of tree?

7                   CHAIRMAN WILLIAMSON: Yeah.

8                   MR. OGLESBY: Okay. That is a knot when you  
9 peel the veneer, okay? When you get into a lot of log  
10 that has less knots in it, it creates an A grade piece  
11 of veneer that will have no knots. The B grade piece  
12 of veneer might have a little pin knot the size of  
13 maybe an eighth of an inch or a quarter of an inch. A  
14 C grade veneer will have a knot maybe the size of a  
15 nickel or a quarter. And a D grade veneer will have a  
16 knot the size of a 50-cent piece.

17                   The structure of the panel is all the same.

18                   CHAIRMAN WILLIAMSON: And the strength of it  
19 and how long it lasts is all the --

20                   MR. OGLESBY: Yes. It's just appearance.  
21 So you wouldn't want to make this podium with knots  
22 all in it. So what you do is you put the A grade out  
23 front with no knots, and you take the low grade that  
24 has the knots and put it inside of it. The structure  
25 is the same as it.

1                   My time is expiring, but, Mr. Levin, real  
2 quick.

3                   MR. LEVIN: Yes, Mr. Chairman. Following up  
4 on what both Brad and Wave just said, Kip has some  
5 numbers here. And this is of particular importance,  
6 especially with regard to what Brad was saying, what I  
7 referenced in my opening testimony, and what you've  
8 heard from several of our witnesses. One of the major  
9 problems that the Chinese imports have presented to  
10 U.S. producers is that they have come in and basically  
11 taken over the lower grade market.

12                   Now, it is absolutely true that they are  
13 moving up in terms of the grade of the product. But  
14 just by cannibalizing the lower grade portion of the  
15 market, it upsets the industry's entire cost structure  
16 because as Brad said, you've got to find a place for  
17 all the grades of veneer that are peeled from a  
18 particular tree.

19                   Kip, what are the percentages? We have here  
20 -- it's birch, a birch log.

21                   MR. HOWLETT: I can give you an example of  
22 the three -- if I can quickly?

23                   CHAIRMAN WILLIAMSON: Quickly, please, yeah.

24                   MR. HOWLETT: Okay. The three major  
25 species, birch, maple, red oak. And this is rotary

1 cut we're talking about here, the ribbon.

2 CHAIRMAN WILLIAMSON: Yeah.

3 MR. HOWLETT: It's what that species will  
4 yield. And in the case of birch, A grade is 12  
5 percent, B grade is 28 percent, 42 percent C, D 9  
6 percent, all other, which would include shop to AA --  
7 I mean, that's the all other category -- 9 percent.

8 Now, that's the industry, the U.S. industry  
9 average, okay?

10 MR. LEVIN: So that's about 60 percent in C  
11 and below.

12 CHAIRMAN WILLIAMSON: Okay.

13 MR. HOWLETT: In the case of maple, it's 9  
14 percent A, 39 percent B, 24 percent C, 17 percent D,  
15 and all other 11 percent. For red oak, A is 14  
16 percent, B is 41 percent, C is 40 percent, all other  
17 5. And I've got the data for sliced, which is --

18 CHAIRMAN WILLIAMSON: No. Thank you.

19 MR. HOWLETT: -- different yields as well.

20 CHAIRMAN WILLIAMSON: Okay, yeah. I have to  
21 say, since we're only five today, we're all taking --  
22 everybody can take a little liberty.

23 Commissioner Aranoff?

24 COMMISSIONER ARANOFF: Thank you, Mr.  
25 Chairman. I join my colleagues in welcoming all of

1 you here this morning.

2 Can you explain to me, are there any  
3 applications for which a very thin veneer is going to  
4 give you any performance advantage? Are there  
5 applications where you need to use it because it's  
6 better?

7 MR. GONYEA: No. Again, I think Mr.  
8 Thompson described it well. We have hardwood plywood  
9 decorative panels. And one thing, you know, as we get  
10 into technical terms, I invite you to visit our  
11 company's web site. Maybe Columbia has the same, but  
12 we have some of the processes and questions raised to  
13 today. We have videos available online,  
14 [www.timberproducts.com](http://www.timberproducts.com), where you can see veneers  
15 being made, ribbons being made to further your  
16 understanding.

17 But to your point, there is no structural --  
18 you know, limited structural integrity in a hardwood  
19 face. And it's only for appearances on the face and  
20 back of the panels.

21 COMMISSIONER ARANOFF: Okay. Now --

22 MR. LEVIN: Joe, that was on behalf of  
23 Timber Products. Wave, on behalf of Columbia, or  
24 Brad?

25 MR. THOMPSON: Yeah. I would -- I've been

1 in this industry 30 years, and I've never had anyone  
2 ask me we want this thickness of veneer, or it doesn't  
3 matter in the sense that what you're looking at is  
4 what you see. And you wouldn't care as a consumer how  
5 thick that piece of veneer was. What you care about  
6 is what it looks like in that direction.

7 COMMISSIONER ARANOFF: Well, I would care if  
8 I put my silverware in that drawer that it's lining  
9 and it immediately scratches through to the  
10 underlayer.

11 MR. THOMPSON: That is true. But we -- the  
12 products are directly substitutable in our industry.  
13 And in fact, I think you see a general trend over the  
14 years that face veneers have become thinner because of  
15 the nature of the resource, but more importantly the  
16 abilities of manufacturers. And typically material is  
17 coated to prevent what you're talking about in terms  
18 of scratching and those kinds of things.

19 COMMISSIONER ARANOFF: Okay. So let me turn  
20 from the thin veneer to the thin plywood products of  
21 the whole thing. We were talking in particular about  
22 the RV or mobile home category. And there seemed to  
23 be some suggestion, maybe by the Respondents, that a  
24 thin piece of plywood is preferred in this  
25 application, but I'm not entirely sure why. There was

1 some reference to bendability at one point. Mr.  
2 Howlett?

3 MR. HOWLETT: I'm going to show my age. The  
4 Hudroll, 1984. The reason that manufactured housing  
5 predominantly used hardwood plywood in the wall  
6 systems and why then there was concern about  
7 formaldehyde emissions from those products being used  
8 in manufactured housing was that hardwood plywood gave  
9 a benefit to manufactured housing that other materials  
10 didn't provide.

11 Most walls in your conventional home are  
12 gypsum wallboard, and in a manufactured home, it was  
13 the thin hardwood plywood. It gave you the structural  
14 integrity to hold the roof up and the walls, but as  
15 you were moving that unit down the highway or  
16 whatever, it could bend and gave you that kind of  
17 performance that gypsum could crack. And so that is  
18 one of the reasons that it has historically been used.

19 The domestic industry has produced that product as  
20 well as imports. I mean, there's not some unique  
21 property or characteristic that it can only be made in  
22 China. That's not true.

23 COMMISSIONER ARANOFF: Okay. I think that  
24 helps. So the answer is you do need a thin product  
25 for that application so that it can be bendable when

1 you're moving, but the source could be domestic.

2 Okay. There's a hand way in the back.

3 MR. TAYLOR: Well, I would just say that my  
4 company, States Industries, maybe we have a bit of a  
5 unique niche in the market in that we produce a lot of  
6 those thin panels for that market that you're talking  
7 about. We produce thousands of pieces of week. We  
8 would like to produce more.

9 COMMISSIONER ARANOFF: Okay.

10 MR. LEVIN: Is there somebody else? Joe?

11 MR. GONYEA: The other factor is weight.  
12 You know, Eugene, Oregon, where we live, at one point  
13 it was the RV capital of the world. And  
14 unfortunately, with the recession, a lot of those  
15 manufacturers have gone away, but the biggest factor  
16 for thin use was weight and designing those units to  
17 be as fuel efficient as possible.

18 COMMISSIONER ARANOFF: Okay. I sort of  
19 suspected that, but no one had said so. Thank you.

20 Now, the next question I wanted to ask is  
21 about lamination. Can you talk about what kind of  
22 hardwood plywood product would be used with a  
23 lamination application? What sort of features is a  
24 customer looking for? In the third row. That's Mr.  
25 Roberts.

1                   MR. ROBERTS: Yes, Madame Commissioner.  
2                   They would use something like a birch or a maple D3,  
3                   and they would put the -- say a plastic laminate at a  
4                   90-degree to it to keep it an even panel. You have to  
5                   have -- like the typical three-quarter panel is seven  
6                   plies. They alternate the ply. So to do that, they  
7                   can put the face at a different angle than the board.  
8                   The advantage is you could not -- you can move any  
9                   way. It won't matter.

10                   But that's what they will -- they need --  
11                   from a lamination you need a solid panel. And also,  
12                   if it's going in a home, you want something without  
13                   any formaldehyde in it.

14                   COMMISSIONER ARANOFF: Okay. So when we're  
15                   talking about laminating, we're talking about like a  
16                   laminated kitchen cabinet? Is that --

17                   MR. ROBERTS: Yes.

18                   COMMISSIONER ARANOFF: Okay. And when you  
19                   say they need a solid panel to laminate, there was  
20                   some discussion in the Respondent's brief about  
21                   whether for a lamination application you need a  
22                   certain kind of core material.

23                   MR. ROBERTS: Different manufacturers have  
24                   different ways of doing it. It all comes out the  
25                   same, but everyone has a different way. Like Ford

1 will make it do something one way, Chrysler and Chevy  
2 will make the same product, but they'll do it three  
3 different ways. It's just what a company is used to  
4 doing.

5 MR. THOMPSON: I would add to that, we have  
6 lamination machines and laminate in Klamath Falls,  
7 Oregon, in Truman, Arkansas, in Chatham, Virginia, and  
8 one facility in Canada, and all using different core  
9 substrates as we laminate.

10 COMMISSIONER ARANOFF: Okay. Let me change  
11 subjects a little bit and ask a question about the  
12 underselling evidence that we have in the record and  
13 how we should understand it.

14 The Respondents argue, obviously, that the  
15 extent of the underselling is proof of attenuated  
16 competition. They argue that you just couldn't have  
17 those margins of underselling sustained over that many  
18 products and that much time if there were actual  
19 competition between the products.

20 Now, I take your argument that there are  
21 many products that the domestic industry can make but  
22 isn't selling right now for price reasons. So I  
23 understand that argument. But there is also the issue  
24 that the Commission's pricing product didn't, for  
25 example, specify the thickness of the veneer. And I

1 think you've all testified that that can make a  
2 difference. I don't know how much of a difference.

3 If one of you gentleman was selling two  
4 products that met one of our pricing product  
5 definitions, but they had very different veneer  
6 thicknesses, would that have a difference? Would that  
7 cause a difference in price? And, you know, how much  
8 difference does the veneer thickness make to the price  
9 of the whole panel?

10 MR. LEVIN: Just for point of clarification,  
11 you're talking about the thickness of the face veneer,  
12 correct? Thank you.

13 MR. THOMPSON: I think that we can provide  
14 more additional information in our post-hearing brief,  
15 but the short answer is that the thickness of veneer  
16 is predominantly in material costs. And it's very  
17 little, in a very small portion of the difference in  
18 price related to the two products in the marketplace,  
19 meaning the discounting going on and the price  
20 discounting has very little to do if we were to -- for  
21 us to make that up with peeling the veneer thinner.  
22 And we can provide some of that data.

23 COMMISSIONER ARANOFF: Okay. That would be  
24 helpful. And what I'm trying to establish is if one  
25 accepted that it was true that all of the subject

1 product and some of our pricing comparisons was, say,  
2 .4 millimeters or less, and that the domestic product  
3 was a thicker veneer, how much of the observed  
4 underselling would we expect to be accounted for by  
5 that difference in veneer thickness?

6 MR. LEVIN: Question understood,  
7 Commissioner. We look forward to providing detailed  
8 and probably confidential information in the post-  
9 hearing.

10 COMMISSIONER ARANOFF: Okay. That's  
11 appreciated, and thank you very much for your answers.

12 CHAIRMAN WILLIAMSON: Commissioner Pinkert?

13 COMMISSIONER PINKERT: Thank you, Mr.  
14 Chairman. And I want to join my colleagues in  
15 thanking all of you for being here today and being  
16 willing to answer our questions.

17 I want to start with a terminology question  
18 because there seems to be some dispute about this  
19 softwood plywood classification. In your view, is  
20 there such a thing as nonstructural softwood plywood?

21 MR. HOWLETT: You can -- there is  
22 structural, which has to meet these standards. And  
23 again, there are span widths and a lot of performance  
24 that is tied to that. There are materials, though --  
25 and you have examples there that may fall within that

1 category, that term that you're using, but in fact the  
2 materials are actually labeled as PS2 or PS2. But  
3 they aren't certified.

4 That sample that went around is actually the  
5 certification, third-party certification, that you're  
6 meeting that standard. And in point of fact,  
7 materials that are labeled PS1 or PS2, they fail the  
8 boil test or the type 2 test, which is required -- to  
9 be hardwood plywood, it has to pass the type 2 test,  
10 and half of those samples have failed that.

11 So I think that there is a lot of confusion  
12 because as the company representatives have indicated,  
13 you can have softwoods and hardwoods in the core. You  
14 can have -- you know, most of the hardwood plywood has  
15 hardwood decorative faces. But you can have a  
16 softwood decorative face.

17 The point really is, as Brad indicated,  
18 we're making a decorative product for its face  
19 qualities, but that doesn't mean that you can't make  
20 and manufacture, which we do, a lower grade that can  
21 have performance properties that could be used, for  
22 example, as was just cited, in recreation vehicles and  
23 in manufactured housing because it has got the weight  
24 and the wood performance properties that you want.

25 But in order to be used, for example, in an

1 RV, it has to meet -- because the RV industry has a  
2 formaldehyde standard. It has to meet that  
3 formaldehyde standard. And there are examples up  
4 there that fail that. And also, it has to meet the  
5 performance properties in here of type 2, and there  
6 are two samples up there that fail that.

7 So, I mean, I struggle with creating a new  
8 nomenclature about a product type when for this  
9 industry -- I mean, hardwood plywood was first  
10 invented back in Mesopotamia. So this product has  
11 been around. Veneering has been around a long, long  
12 time, and there are commercial nomenclature and  
13 standards that pretty well define it. And I get  
14 troubled when I hear these new definitions and new  
15 nomenclature when there are commercial terms that  
16 basically define the performance properties.

17 COMMISSIONER PINKERT: So are you saying  
18 that the term nonstructural softwood plywood would not  
19 be part of the commercial nomenclature in the  
20 industry?

21 MR. HOWLETT: Well, I mean, we've heard it  
22 used, and I think that you could probably say that,  
23 for example, the hardwood plywood that's used in  
24 manufactured housing or in recreation vehicles is not  
25 necessarily a PS1 or like structural plywood that's

1 used to build a stick-built home.

2 You have an example there that the material  
3 in fact was labeled PS1. It's clearly hardwood  
4 plywood, and it failed PS1. Somebody looking at that,  
5 I think, would have great difficulty -- I'm sorry.

6 COMMISSIONER PINKERT: Mr. Gonyea?

7 MR. GONYEA: I would just elaborate. Our  
8 company manufactures both softwood plywood and  
9 hardwood plywood. And to your question, I would say,  
10 yes, it is not commonplace nomenclature for softwood  
11 plywood.

12 MR. LEVIN: And if I may, Commissioner, I  
13 understand the reference in the AAHP brief. It tells  
14 a little bit of the story about what has transpired so  
15 far in this investigation. We can go through this in  
16 greater detail in the post-hearing brief as much as  
17 you'd like.

18 COMMISSIONER PINKERT: Please do.

19 MR. LEVIN: I will indeed. But I want to  
20 make two quick points. The argument made by AAHP in  
21 their prehearing brief is the same issue from a  
22 slightly different angle that had been presented in  
23 challenging the standing of this industry to file a  
24 petition in the first place. The AAHP was very, very  
25 good in their brief about citing to all the

1       allegations that they presented to the Commerce  
2       Department in the pre-initiation stage.

3               They don't cite at all to the Commerce  
4       Department's initiation memorandum, which shot down  
5       point by point every allegation that had been made,  
6       point one, point two. I respectfully submit to the  
7       Commission's attention our supplemental petition  
8       submission of October 17th, 2012, where we  
9       specifically discuss some of the major manufacturers  
10      that are referenced in the AAHP prehearing brief.

11              What bothers me about the way that  
12      information was presented is that it omits directly  
13      relevant information obtainable from the web sites  
14      that they are looking at, and which we pointed the  
15      Commerce Department to, which specifically and  
16      directly rebuts what they are alleging.

17              COMMISSIONER PINKERT: Thank you. Mr.  
18      Howlett, we cut you off there. Did you want to finish  
19      your answer?

20              MR. HOWLETT: No. They cut out the long-  
21      winded response.

22              COMMISSIONER PINKERT: Thank you.

23              Now, I've heard a number of you on this  
24      panel suggest that the Chinese product is moving into  
25      higher valued categories. And I want to give you the

1 opportunity to point to evidence in the record that  
2 shows that they're doing this.

3 MR. LEVIN: Commissioner, if we may save  
4 that for the post-hearing briefs so that we don't do a  
5 scattershot answer right off the cuff.

6 COMMISSIONER PINKERT: Absolutely.

7 MR. LEVIN: Thank you.

8 COMMISSIONER PINKERT: Now, did the increase  
9 in subject import volume from 2010 to 2012 come at the  
10 direct expense of nonsubject imports? And if that's  
11 the case, can you discuss the implications of that for  
12 the analysis under the Bratsk and middle line of  
13 cases?

14 MR. MALASHEVICH: This is Bruce Malashevich.  
15 I'll start out on the former, and I'll let the legal  
16 talent talk about Bratsk after that.

17 COMMISSIONER PINKERT: He said talent, not  
18 suit, so I guess that's a compliment.

19 (Laughter.)

20 MR. MALASHEVICH: I'm at the bottom of the  
21 food chain, Commissioner. I have to be very careful  
22 about such comments.

23 Really, the first thing to call your  
24 attention to is this is not an old argument. It was  
25 proffered during the preliminary phase investigation

1 in at least two pages of the unanimous opinion,  
2 including, if I recall correctly, a footnote by you  
3 dismissing the argument in a summary manner. So  
4 that's my first point.

5 Secondly, in the normal course of the  
6 research I did preparing for the final phase,  
7 obviously I did a lot of research and talked to all  
8 the gentlemen here, exploring all the facets of the  
9 case. The reality is this, and I would invite -- I'm  
10 doing a summary. I would invite the industry members  
11 to add as they wish.

12 But prior to the incursion of China into the  
13 U.S. marketplace, imports were by no means absent.  
14 The industry competed in hardwood plywood for years,  
15 with producers in places like Brazil and Russia,  
16 Canada and elsewhere, who are very active in the  
17 market, but active at pricing levels and conditions  
18 that do not cause material harm to the industry and  
19 that continue to do very well.

20 When the Chinese came in, yes, you could  
21 look a simple look at the trade data and the  
22 statistics, and the Chinese went up, and share of  
23 subject imports went down. But the Chinese incursion  
24 occurred at the expense of everybody else  
25 participating in the U.S. market, both domestic and

1 the Brazilians and the Russians and the Canadians  
2 because of pricing.

3 Now, in the case of the Europeans,  
4 Canadians, Brazilians, they had options. They're  
5 major exporting countries, and they could just afford  
6 not to meet the Chinese prices and reduce the  
7 shipments to the United States and happily sell  
8 elsewhere.

9 The U.S. industry, as the staff report  
10 shows, is not a big exporter. There is no option  
11 other than to compete in the United States, so they  
12 chose to hold the line on prices and reduce them as  
13 necessary to retain volume, especially for the lower  
14 grade C and D that people have been talking about  
15 here.

16 But the effect of the Chinese entry going  
17 from single digits to nearly 50 percent through price  
18 distorted the pricing structure previously in place in  
19 this market for everybody selling into it. But the  
20 nonsubject producers had options, the domestic  
21 industry didn't.

22 So I think the Commission properly dismissed  
23 it out of hand as an old argument I these cases. In  
24 some cases, it's appropriate. In most cases it's  
25 just, you know, what people do by playing with the

1 statistics.

2 And I won't talk about Bratsk.

3 MR. LEVIN: I'll talk a little bit about  
4 Bratsk. We respectfully submit it does not apply  
5 here. This is not a commodity product. Bratsk and  
6 the line of cases following Bratsk apply to commodity  
7 products. The product has become more commoditized  
8 over the course of time, but with different  
9 thicknesses, different sizes, different cores,  
10 different face veneers, different end use  
11 applications, this is anything but a commodity  
12 product.

13 And if I also may add, we present 15 or so  
14 pages in our prehearing brief on the threat argument  
15 as well, and I don't want that to be overlooked in the  
16 course of all the other fun stuff going on this  
17 morning. But on this point it is well established  
18 that the Bratsk analysis does not apply in the threat  
19 context.

20 COMMISSIONER PINKERT: Thank you. Thank  
21 you, Mr. Chairman.

22 CHAIRMAN WILLIAMSON: Thank you.  
23 Commissioner Johanson?

24 COMMISSIONER JOHANSON: Thank you, Mr.  
25 Chairman. I'd now like to turn to the issue of

1 nonsubject imports, something which I don't think has  
2 come up this morning, at least not yet.

3 Respondents contend that increases in  
4 subject imports came at the expense of nonsubject  
5 imports and not domestic producers. Are imports from  
6 nonsubject countries substitutable with domestic  
7 products as are subject imports? Are they used in the  
8 same or different applications as subject imports?

9 MR. MALASHEVICH: Commissioner Johanson, as  
10 I mentioned earlier, in the original unanimous  
11 determination the issue was considered by the  
12 Commission and summarily dismissed. And I discussed  
13 earlier about the history in that the nonsubject  
14 imports and domestic producers lived happily together  
15 for years before the Chinese entry, and they are  
16 substitutable.

17 When the Chinese entered and completely  
18 distorted the pricing structure, beginning with the  
19 lower-quality grade C and D, all other participants in  
20 the U.S. market were hurt. Nonsubject producers had  
21 opportunities elsewhere because they're major  
22 exporters. The U.S. industry is not a major exporter,  
23 so it had to dig in its heels and compete the best it  
24 could by holding and lowering prices, especially for  
25 the lesser grades.

1           So I think nonsubject imports, just as they  
2           and the domestic producers suffered by the Chinese  
3           entry, both have enjoyed something of a rebound  
4           following the imposition of the preliminary duties.  
5           And that's discussed at some length in the prehearing  
6           brief. But I invite other industry members to amplify  
7           on that if you like.

8           MR. CLAUSEN: You know, I think Bruce really  
9           hit it on the head. It just really -- the entry of  
10          the Chinese really just disrupted the entire market,  
11          and today it's -- since the preliminary rules came  
12          out, some of the nonsubject imports have started  
13          gaining ground as well.

14          MR. OGLESBY: And I would certainly agree  
15          with my colleague, Mike Clausen. That's exactly what  
16          has happened over the last 15 years.

17          COMMISSIONER JOHANSON: All right. Thank  
18          you. Could one of you please discuss shipping costs?  
19          U.S. production is concentrated in rural areas far  
20          from large U.S. markets. In contrast, Chinese product  
21          is shipped to major U.S. ports, which are directly  
22          linked to rail lines.

23          How does shipping affect cost or prices?

24          MR. ROBERTS: Shipping is a large factor.  
25          Most of the material we receive is either by truck or

1 by rail, and the rail is more competitive. But for an  
2 importer, if you bring something in California, you  
3 put it on a rail, that's going to add cost. But they  
4 don't seem to -- they seem to absorb it. It doesn't  
5 show up in the price.

6 MR. DOUGAN: Commissioner Johanson, this is  
7 Jim Dougan from ECS. According to the staff report at  
8 page Roman V-1, it says that U.S. producers inland  
9 transportation costs ranged from 3 to 12 percent, but  
10 all but one importer reported costs ranging from less  
11 than 1 percent up to 7 percent.

12 So in some instances you are perhaps seeing  
13 the effect of it comes into a port and it's on rail,  
14 there is a shorter distance to go. But there is a  
15 substantial amount of overlap in those percentages  
16 from, you know, 1 to 7 and 3 to 12. That 3 to 7 range  
17 of percentages would suggest that it's not the  
18 shipping costs that would be a determinant in the  
19 overall end price to the user, and certainly not to  
20 the degree suggested by the underselling data.

21 COMMISSIONER JOHANSON: Okay, yeah. I'm  
22 just -- I'm asking this because I know in many  
23 investigations or a number of investigations the  
24 shipping cost from Asia and other parts of the world  
25 can actually cost less than shipping within the United

1 States. And I would think in particular with the  
2 products that you all produce, which are in rural  
3 areas, I thought that would make a bigger difference.

4 MR. OGLESBY: Well, what I would tell you is  
5 as far as the plants that Columbia Forest Products is  
6 concerned, all our plants are located within 500 miles  
7 of the top 100 metropolitan markets in the United  
8 States. So freight is not that -- it's not 12  
9 percent, I can tell you that right now.

10 COMMISSIONER JOHANSON: How about from  
11 Oregon?

12 MR. OGLESBY: Well, if you think Oregon, I  
13 think L.A. from Klamath Falls, Oregon is 600 and some  
14 odd miles. So it's just outside of that. But Oregon  
15 services -- all those plants service the West Coast  
16 quite regularly on truck, not on rail.

17 MALE VOICE: And we have the same situation  
18 at Timber Products. We have our plant in Oregon, but  
19 we also -- a number of plants in Oregon, but we also  
20 have our plant in Corinth, Mississippi. So we ship  
21 into eastern markets primarily out of the plant in  
22 Mississippi.

23 COMMISSIONER JOHANSON: Okay. Thanks. In  
24 your brief, you concede that for some applications,  
25 the subject imports are not interchangeable with

1 domestic hardwood plywood. In which applications are  
2 those and how much of the domestic market do those  
3 applications represent?

4 MR. ROBERTS: The one part where the  
5 domestic manufacturer makes a specific thickness, we  
6 have customers when they're building things it has to  
7 be to an exact thickness, which your domestic  
8 manufacturers will comply with. The imports, it's all  
9 over the board, and customers cannot accept that. If  
10 you put five pieces in a row in building a long table,  
11 you can't have all those different thicknesses. Your  
12 domestic manufacturers have better tolerances.

13 MR. DOUGAN: Commissioner, this is Jim  
14 Dougan. And I said the same thing, I think, in my  
15 testimony today, which is, you know, the concession  
16 that there may be some applications where there are,  
17 for example, a nonprice reason to prefer the Chinese  
18 product is basically because we weren't interested in  
19 making a categorical statement that there is  
20 absolutely no situation in which, you know, someone  
21 might prefer it.

22 So we're not saying that. We're not making  
23 a categorical statement. What we are saying is that  
24 the argument made by the other side, which is much  
25 more categorical, that there is limited overlap or no

1 overlap, couldn't possibly explain the volume and the  
2 market share of the subject imports. So that's really  
3 the reasoning behind that statement.

4 COMMISSIONER JOHANSON: All right. Thank  
5 you. Why are so much more of subject imports in  
6 thinner panels?

7 MR. DOUGAN: This is Jim Dougan again. I  
8 can't speak to the reasoning as to why the emphasis is  
9 there. But what I can say, based on the data -- and  
10 this was presented in my testimony -- is that while  
11 there is a concentration, a relative weight, of the  
12 subject imports in the thin panels, that is, the ones  
13 below 6.5 millimeters in overall thickness, nearly  
14 half of them are between -- nearly half of their  
15 shipments are distributed between the 6.5 millimeters  
16 and the 19.99 millimeters.

17 So relatively compared to the domestic  
18 producers they are more concentrated in the thinner  
19 panels. But again, nearly half of what they ship is  
20 not the thin panels. And that's a very substantial  
21 panel.

22 COMMISSIONER JOHANSON: Yes, Mr. Levin?

23 MR. LEVIN: Yeah. I was just going to add,  
24 I mean, as is in any case that the Commission looks  
25 at, as is the case in any industry where there are

1 both imports and domestic product present, there is  
2 not going to be, and we're not claiming there to be,  
3 in practical terms, day-to-day basis, 100 percent  
4 overlap in competition.

5 But we respectfully submit that's not the  
6 issue here. What we're submitting is that there is a  
7 substantial degree of competition, as Jim has just  
8 outlined, and as we detailed further in the prehearing  
9 brief, and to the degree that there is a concentration  
10 of Chinese product within certain thicknesses, that  
11 has to do with the fact that they are coming in at a  
12 cheaper price.

13 MR. DOUGAN: And if I may add one more thing  
14 to what Mr. Levin has said on this point, not only in  
15 the data presented at slides 1 and 2 of my  
16 presentation, but on Roman II-9 of the staff report,  
17 there is a pie chart that shows the end use for  
18 imported hardwood plywood. This was presented by the  
19 Respondents themselves in their post-conference brief,  
20 and it shows the RV is 12 percent, underlayment is 18  
21 percent. So that's 30 percent of their shipments.  
22 And cabinets are 34 percent of their shipments.

23 So altogether, that's 64 percent of their  
24 shipments. Only 54 percent of their shipments are  
25 below 6.5 millimeter, according to their questionnaire

1 data. So even if you assume that everything they  
2 ship, from cabinets to underlayment to RV, the end  
3 uses that you hear about from them is the very thin  
4 panel. You know, it's still a very large substantial  
5 portion of what they're shipping to other end uses at  
6 much greater thicknesses.

7 So while there is a concentration, it's not  
8 -- you know, it's not so quite as clear as they would  
9 have one believe.

10 COMMISSIONER JOHANSON: All right. Thank  
11 you for appearing here today. My time has expired.

12 CHAIRMAN WILLIAMSON: Thank you.  
13 Commissioner Broadbent?

14 COMMISSIONER BROADBENT: Great. I wonder if  
15 someone could talk to me about what they expect future  
16 demand for this product to be and what is sort of  
17 driving it. Is it new home starts or is it people  
18 holding back and remodeling and starting to remodel  
19 again? What do you see happening?

20 MR. HOWLETT: Well, as the economy improves,  
21 we certainly hope that demand is going to increase. I  
22 think the key economic indicator that as an industry  
23 we follow and track is really twofold for our  
24 industry: new home construction, which, you know, we  
25 have been at horrifically low levels and gradually

1 moving up. We've gone year over year from 750,000 new  
2 starts to this year anticipated just under 1 million,  
3 probably in the 950,000 range.

4 We're hopeful that next year in most  
5 indicators, we look at 14 different agencies that  
6 report their estimates for the coming year. The  
7 composite average of those has new housing starts  
8 coming in at about 1.15 million starts. It's still a  
9 far cry from what we once used as an industry as  
10 sustainable being 1.6 million housing starts per year.

11 The other key indicator is home repair and  
12 remodel, which is also trending up, though there is  
13 some belief with rising interest rates they're  
14 actually predicting a slight decrease in home  
15 repair/remodel use for the coming year.

16 COMMISSIONER BROADBENT: Okay. And then  
17 what about -- and so what is that key indicator? I  
18 set my note apart, but it's the --

19 MR. HOWLETT: New home construction and home  
20 repair/remodel.

21 COMMISSIONER BROADBENT: I guess it's the  
22 leading indicator of remodeling activity?

23 MR. HOWLETT: Yes.

24 COMMISSIONER BROADBENT: Okay. And then is  
25 the product used -- does demand grow more -- I mean

1 proportionately, where do you sell more of this, in  
2 new construction or in remodeling?

3 MR. HOWLETT: I have to follow up and get  
4 the percentage breakout, but, you know, we've been so  
5 low coming off the recession that, you know, clearly  
6 they're moving in the right direction, and that would  
7 be my comment.

8 COMMISSIONER BROADBENT: Okay.

9 MR. LEVIN: And, Commissioner -- I'm sorry,  
10 Brad. But we will go back to each of our members, and  
11 we'll be able to provide at least a good ballpark  
12 estimate of the breakdown between shipments to new  
13 home construction and shipments for remodeling, to the  
14 extent that we can do that because there is a  
15 distribution channel here. So the manufacturer, when  
16 selling to a distributor, may not necessarily know  
17 where the distributor is selling to. I just wanted to  
18 throw in that caveat.

19 COMMISSIONER BROADBENT: Okay. And then how  
20 do we know that the improvement in the industry that  
21 was experienced in the last part of the period, the  
22 interim period, isn't due to this increase in demand?

23 MR. HOWLETT: Again, I guess would -- we're  
24 pleased with the nominal increase, but again, we were  
25 once dealing with housing starts of 1.6 as being

1 sustainable. We reached a low of 500,000 starts, so  
2 the increase we're seeing, though, may be a large  
3 percentage year over year, it's still a far cry from  
4 what we once saw as acceptable or sustainable housing  
5 starts, so --

6 COMMISSIONER BROADBENT: Right. But a lot  
7 of the improvement in the industry is really because  
8 of the increase in demand.

9 MR. HOWLETT: Well, I think that, you know,  
10 there is certainly a percentage that is attributable  
11 to new starts. But it's still very nominal, and it's  
12 historically this would be recessionary still numbers  
13 that we're looking at for housing starts.

14 COMMISSIONER BROADBENT: Okay. Mr. Dougan,  
15 did you have a comment on that?

16 MR. DOUGAN: I just wanted to add one thing,  
17 which was that there was -- you know, there was an  
18 improvement in demand between '11 and '12 as well  
19 based on these indicators that are in the staff  
20 report. But there wasn't quite such a substantial  
21 improvement in the domestic industry's condition of  
22 financials or its other indicators.

23 While the improvement in overall demand  
24 between '12 and '13 has been greater than '11 to '12,  
25 the degree of improvement by the domestic industry,

1 especially when viewed against the drop in subject  
2 imports and the increase in subject import prices, I  
3 mean, I think that's a much stronger indicator for the  
4 reason for the improvement.

5 Is none of the improvement attributable to  
6 demand? No. Of course, some of the improvement is  
7 attributable to demand. But would that benefit have  
8 accrued to the domestic industry absent the filing of  
9 the case and the drop in subject import volume? I  
10 don't think anybody here would agree with that.

11 COMMISSIONER BROADBENT: Okay. Who can tell  
12 me about import restrictions in other markets? I  
13 think we probably need that on the record, kind of  
14 comprehensive listing of where you're seeing --

15 MR. LEVIN: There are several countries that  
16 have dumping investigations that have either been  
17 completed or are in process, and with the  
18 commissioners' permission, we'd like to go through a  
19 more detailed rundown of that in the post-hearing  
20 brief.

21 COMMISSIONER BROADBENT: Okay. Hang on one  
22 second. I had one more question here. When did the  
23 Chinese begin sort of the cannibalization -- I think  
24 that was the term that was used earlier today. At  
25 what sort of point of time could you identify?

1 MR. HOWLETT: Well, we -- as HPVA, we do a  
2 stock panel report and a trade report, and in the 2000  
3 stock panel report, China is listed in the other  
4 category in terms of --

5 COMMISSIONER BROADBENT: Sorry, which year?

6 MR. HOWLETT: In the other category. It  
7 doesn't even rise to --

8 COMMISSIONER BROADBENT: Which year?

9 MR. HOWLETT: In 2000.

10 COMMISSIONER BROADBENT: 2000.

11 MR. HOWLETT: So, you know, 13 years ago.  
12 And in about 2006, the onslaught starts. And it moves  
13 up to where now it's 50 percent market share, and it  
14 has moved out of the other category to where it's 65  
15 percent of imports, 50 percent of the U.S. market. So  
16 and the comment that was made earlier that when you  
17 see that kind of market penetration, it has absolutely  
18 changed the market equilibrium of this industry. I  
19 mean, it has absolutely turned it on its head.

20 COMMISSIONER BROADBENT: Sure.

21 MALE VOICE: I would add, as in my  
22 testimony, I think our company noticed it around the  
23 year 2007, where I think that those numbers on imports  
24 was single digits around that time, and so though it  
25 has been occurring over 13 years, I think we've seen

1 the biggest impact since 2007.

2 COMMISSIONER BROADBENT: Okay. All right.

3 MR. LEVIN: And if I may add, Commissioner,  
4 when this Commission did its section 332  
5 investigation, the report was released in September  
6 2008, and it covered through 2006, early 2007. And at  
7 that point, the Commission had already recognized that  
8 imports from China have grown quite a bit and posed  
9 the most significant competitive challenge to the  
10 domestic industry as of the time of that  
11 investigation.

12 Now, the period of investigation here  
13 follows by a two- or three-year period the period that  
14 was examined in the section 332 investigation. And  
15 just in that period, you're looking at a 20, 25  
16 percent increase in imports. So, yeah, like in a lot  
17 of industries, China was negligible or a nonplayer  
18 prior to their admission to the WTO. And once they  
19 signed on to the WTO, 2001, 2002, things began to  
20 ratchet up. By 2006, 2007, already the dominant  
21 supplier to the United States. 2012, a 20 to 25  
22 percent increase just over a three-year period.

23 COMMISSIONER BROADBENT: But I guess I  
24 didn't -- the connection with the WTO membership is --

25 MR. LEVIN: I'm just saying that as a

1 general macroeconomic matter a lot of industries, not  
2 just our industries, it was China's admission to the  
3 WTO that was sort of the trigger event for the -- I  
4 don't want to use surge, but the ratcheting up of  
5 imports from China, whether it was in textiles or toys  
6 or clothing or hardwood plywood.

7 COMMISSIONER BROADBENT: That the membership  
8 in WTO, there was some causal effect there that  
9 triggered that?

10 MR. LEVIN: Well, the protections afforded  
11 both ways to China and to other WTO signatories was in  
12 essence really Chinese big coming out party to be a  
13 major player in the global economy.

14 COMMISSIONER BROADBENT: Okay. Let's see if  
15 I had any -- I guess -- oh, my time has expired. I  
16 apologize.

17 CHAIRMAN WILLIAMSON: Okay. Thank you.  
18 Should we rely on importer questionnaires for import  
19 data? If not, how do you respond to Respondent's  
20 arguments regarding HTS data being both over and under  
21 inclusive?

22 MR. MALASHEVICH: Well, there is an argument  
23 that I thought was fought to a conclusion in the  
24 preliminary round, when the official trade data were  
25 used in calculating volume of imports and their market

1 share, and that continued, I suggest, properly because  
2 the gentlemen around the table could tell you that in  
3 our research, there is a variety -- we have reason to  
4 believe a large volume of product that is not properly  
5 classified as what you might call the mainstream  
6 hardwood plywood HTS numbers.

7 So our view is that staff properly drew the  
8 necessary conclusions and relied primarily on the  
9 official trade data for appropriate HTS numbers rather  
10 than the questionnaire responses.

11 MR. DOUGAN: If I may add to that, Chairman  
12 Williamson, the Respondents want -- would prefer to  
13 use the questionnaire data because it gives them more  
14 favorable volume and market share trends, particularly  
15 between the interim periods. But what is worth noting  
16 is that for both the import stats and the  
17 questionnaire data, for import entries you do see the  
18 same severe decline between the part-year period.

19 So that's not in question. The effect of  
20 the case on the import volume coming in is pretty much  
21 the same. Now, the questionnaire data do show an  
22 increase in U.S. shipments of imports because these  
23 were sold out of inventory. So that's what gives them  
24 the favorable thing to show, maybe not the shift in  
25 market share that you'd say by looking at the import

1 stats.

2 But, you know, even if this U.S. shipment of  
3 imports is flat, they're pulling that out of the large  
4 inventories that they had built up in the end of 2012,  
5 after the case was filed. And that drawdown is what  
6 meant that you didn't see using questionnaire data  
7 quite so severe of a decline like you did in the  
8 actual import entries.

9 However, the import entries did come down,  
10 and questionnaire data support that. So you will see  
11 that represented and manifested in the import  
12 shipments, you know, actually by importers eventually.

13 They will ship eventually because their inventories  
14 have been drawn down. And I think, you know, when  
15 assessing this -- and, I mean, the short answer is  
16 just use the import stats. But you also have to ask  
17 what gives a more accurate view of what is going on in  
18 the marketplace and the market dynamics. And what  
19 you're hearing from purchaser questionnaire responses,  
20 the narratives, the importers stop shipping. We had  
21 difficulty getting the Chinese stuff.

22 You know, that doesn't seem to be consistent  
23 with the increase in import shipments that you see in  
24 the questionnaire data. So obviously it's missing  
25 something.

1           CHAIRMAN WILLIAMSON: Okay. Thank you for  
2 that answer.

3           On page 2-9 of the prehearing report -- Mr.  
4 Dougan, I think you referred to it -- there is a pie  
5 chart from the preliminary showing end use for  
6 imported plywood. And I was wondering, can you  
7 provide similar data for domestic product post-  
8 hearing?

9           MR. LEVIN: Absolutely, if we may do so in  
10 the post-hearing brief.

11          CHAIRMAN WILLIAMSON: Yeah, of course, yeah.

12          MR. LEVIN: We'd be please to do so, yes.

13          CHAIRMAN WILLIAMSON: Thank you.

14                 Respondents argue that the domestic  
15 producers sell to only a limited number of  
16 distributors, and that subject imports are sold to a  
17 much larger pool of distributors, making it more  
18 accessible to customers. How do you respond to that?

19         And if you don't want to do it now, you can do it  
20 post- hearing.

21                 MR. CLAUSEN: In my testimony I stated that  
22 when I made the transition from being in the import  
23 business to the domestic hardwood plywood business,  
24 that there were at least 70 percent of the customers  
25 that were crossover customers that both bought

1 domestic hardwood plywood and import plywood.

2 MR. HOWLETT: Again I'm reading from our  
3 2012 stock panel report, and this is consistent with  
4 regard to the distribution chain for domestically  
5 produced hardwood plywood. But 28 percent goes  
6 through single distributors, 42 percent goes through  
7 multiple distributors. So our supply chain is largely  
8 through distributors, two-thirds, who then sell to  
9 customers in their local regions, 5 percent furniture,  
10 8 percent cabinet, 13 percent retail, and 4 percent  
11 fixture or other.

12 MR. OGLESBY: I would also say that at  
13 Columbia every year we add distributors or drop  
14 distributors, primarily on creditworthiness, and also  
15 if we want to penetrate other markets or markets where  
16 we're trying to get more market share in areas. So  
17 every year we add distribution.

18 CHAIRMAN WILLIAMSON: Okay. So you don't  
19 think that you're any less accessible to customers  
20 than the -- okay. Thank you. Can elaborate on the  
21 evidence that shows either price depression or  
22 suppression on this record? I am looking at AUVs,  
23 pricing product data, and the COGS to sales ratio, and  
24 I'm not seeing strong evidence.

25 MR. DOUGAN: If I can add to that, in my

1 testimony -- this is Jim Dougan. In my testimony, I  
2 mentioned how the improvements in the industry after  
3 the filing of the case were sort of a photo negative  
4 for the injury that may not have been as apparent  
5 before.

6 On the price suppression side, the fact that  
7 the domestic producers were unable to raise prices  
8 sufficiently to basically recover costs and to  
9 increase their margins is apparent from the data. If  
10 you look at the COGS to sales ratios -- and I'm going  
11 to have to go to table 6-1, it is pretty flat from 10  
12 to 12. So the COGS to sales ratio is 90.1 in 2010,  
13 90.6 in 2011, and 90.7 in 2012.

14 So I'll give you that that is flat and  
15 doesn't seem to show a particular trend. The fact  
16 that it goes from 9.6 in January to June 2012 to 88.8  
17 in 2013, while unit COGS remain the same and flat,  
18 does suggest that after the filing of the case and  
19 with the decline in subject import volume and the  
20 increase in subject import prices you saw in the chart  
21 in my presentation, the prices were being held down in  
22 '10, '11, and '12, and were suddenly able to increase  
23 in '13, and that is evidence of price suppression in  
24 retrospect.

25 MR. MALASHEVICH: This is Bruce Malashevich,

1 Mr. Chairman. It's also an indication of how  
2 depressed prices were in absolute terms before the  
3 progress of this case. In addition to Mr. Dougan's  
4 testimony, I'm reading from the public version of  
5 Petitioner's prehearing brief, page 38, and the  
6 linkage to the change in the pricing behavior of  
7 subject imports after the case was progressing is  
8 undeniable. There is no other event to explain it.

9 For all six pricing products, the percentage  
10 of underselling margins narrowed substantially  
11 following the filing of this case in the second half  
12 of 2012, the first half of 2013. Domestic prices  
13 generally rose in the early half of 2003, but subject  
14 import prices rose even faster, therefore increasing  
15 the incentives for purchase to buy domestic rather  
16 than importing from China.

17 So I really think the delta of both the  
18 Chinese pricing, the sharp narrowing of the margins of  
19 underselling, is a key event explaining why domestic  
20 prices were able to increase relatively speaking  
21 rather robustly in 2013. No event other than the  
22 progress of this case can explain that.

23 So comparing '13 to earlier levels, as Mr.  
24 Dougan suggested, is kind of a photo negative measure  
25 of how depressed they were in the first place,

1 notwithstanding a flat ratio of COGS to sales.

2 CHAIRMAN WILLIAMSON: Okay. Thank you for  
3 those answers. The pricing product data cover only a  
4 small share of the total domestic shipments, about 8  
5 percent. What are some of the domestic products that  
6 might account for the balance of domestic shipments,  
7 and do these products face competition from subject  
8 imports?

9 MR. LEVIN: I'd like to respond to that in  
10 the post-hearing brief so I can have my industry guys  
11 refresh their memory as to the specific products that  
12 were subject to the quarterly pricing comparisons.

13 CHAIRMAN WILLIAMSON: Okay.

14 MR. LEVIN: As a general proposition, with  
15 few if any exceptions there are no products that do  
16 not face competition from China, either directly or  
17 indirectly. And by indirectly I mean, you know,  
18 pricing pressures evinced on higher grade products by  
19 lower grade Chinese products, an issue that we've  
20 discussed at length so far this morning.

21 CHAIRMAN WILLIAMSON: Okay. Thank you.

22 Mr. Awalt, we haven't heard much from you.  
23 You're selling primarily display -- I guess furniture,  
24 you would call it?

25 MR. AWALT: Yeah. It's display furniture to

1 the supermarket industry, so primarily produce  
2 displays, bakery, wine, floral to companies like Whole  
3 Foods, Wegman's, Price Chopper, Weis Markets, Stop N'  
4 Shop, Giant Foods, those types of customers.

5 CHAIRMAN WILLIAMSON: Okay. And you're  
6 saying that -- and all those folks I guess since the  
7 margins in that industry are not great, price must be  
8 a big factor.

9 MR. AWALT: Right. So the challenge that I  
10 have is, you know, if we're doing a reverse auction,  
11 which is becoming quite common in our industry,  
12 customers typically aren't letting us go in and  
13 explain quality over price. It's a reverse auction,  
14 so you do it online. And if I'm using a, you know,  
15 formaldehyde-free domestic product, and I'm competing  
16 against somebody that's using an import birch plywood  
17 product, then the chances of me winning that business  
18 is less than if I was also using an import birch.

19 The challenge that I would have is if I  
20 don't use an import birch, what do I use to compete?

21 CHAIRMAN WILLIAMSON: Okay. Even though the  
22 product you want to use is a better quality?

23 MR. AWALT: Right. And in certain cases,  
24 you know, shipping to California, you have to use  
25 formaldehyde-free. But if again I'm bidding a

1 product, and they're giving me the drawings, but  
2 they're not giving me specific specifications on how  
3 thick the veneer has got to be, the core, any of those  
4 sorts of things, it's just a price -- you know, they  
5 -- it's a reverse auction. You're just hitting the  
6 button going down on price, and typically the lowest  
7 price wins. And again, if I'm bidding with a domestic  
8 product versus my competitors with an import birch, I  
9 may not win that business. My cost is somewhat  
10 higher.

11 But consequently, I don't want to use an  
12 import birch to try to compete.

13 CHAIRMAN WILLIAMSON: Okay. Thank you. Do  
14 any of the other producers face this, see a comparable  
15 situation, depending on how your customers -- just  
16 using reverse auctions or something like that, where I  
17 guess it really is more pressure on price?

18 MR. AWALT: I just want to add that no  
19 customer is specifying a real thin veneer.

20 CHAIRMAN WILLIAMSON: Oh, okay. So they  
21 give you a standard product, and they want a -- okay.  
22 Good, okay. Thank you for that answer.

23 Let's see. Commissioner Aranoff?

24 COMMISSIONER ARANOFF: Thank you, Mr.  
25 Chairman. Just a few followup questions. I'm trying

1 to reconcile some of the arguments that you've made.  
2 One the one hand, I've heard from this panel that  
3 Chinese products entered the U.S. market at the low  
4 end and are moving upmarket, and I know that you're  
5 going to look at the record and point out where there  
6 is evidence of that post-hearing.

7 In the meantime, can you explain how that's  
8 consistent with some of the arguments I've heard from  
9 purchasers and from Mr. Howlett concerning quality  
10 issues with the Chinese product? How is it going to  
11 move upmarket if it's already bad quality for the low-  
12 end applications that it's being sold?

13 MR. LEVIN: Well, I'll let some of the  
14 industry guys talk to this as well, but I think it is  
15 very commonplace in this industry, as it is in other  
16 industries. Everybody wants the best quality product,  
17 but when you are looking at a competing product that  
18 is being offered at 30, 35, 40 percent less as a  
19 purchaser, especially in tough economic times, you may  
20 be willing to overlook any qualms or any concerns that  
21 you may have about the quality of the product or other  
22 issues associated such as where the wood is coming  
23 from.

24 COMMISSIONER ARANOFF: Well, that's true to  
25 a point. But at a point if the product is not

1 performing, if the veneer is peeling off before you  
2 can sell it to the customer and get rid of it, or, I  
3 mean, or there are problems that are just obvious --  
4 and I know we had some testimony about how product was  
5 just defective in its end use application and that  
6 customers were complaining about it. And I'm trying  
7 to understand how widespread that is and how you can  
8 account for the widespread acceptance of the Chinese  
9 product if these kinds of problems happen as you push  
10 lower end product into the market?

11 MR. LEVIN: Well, I don't know if, Brad or  
12 Joe, you want to speak to this. The indications of  
13 quality problems that have been presented in the  
14 testimony is anecdotal from their experience on a day-  
15 to-day basis in the marketplace, this particular sale,  
16 this particular product, et cetera, et cetera. But  
17 overall, I don't think there is anybody on this panel  
18 that will not claim that as a general proposition the  
19 quality of the Chinese imports is comparable to the  
20 same U.S. product.

21 MR. CLAUSEN: Excuse me. I think if you  
22 talk about ten years ago, the imports that were coming  
23 from China were really a disaster. People were  
24 bringing in plywood. It was high moisture content.  
25 As soon as the bands were broken on a bundle of

1 plywood, the plywood would start to twist and turn  
2 like a potato chip as it dried out.

3 Chinese plywood got a terrible reputation  
4 initially. But over the last ten years, I would say  
5 that the product has improved tremendously, to the  
6 point today where even though we're talking about in  
7 general mostly lower grade plywoods, the C and D  
8 grades, the actual quality of the plywood, the  
9 delaminations, and the workability of the product has  
10 just improved significantly, so -- and it's on par  
11 with the domestic-made low-grade plywood today, I  
12 would say.

13 COMMISSIONER ARANOFF: No. We did have some  
14 testimony earlier about the Chinese mills drying  
15 veneers with light bulbs and such. Are we talking  
16 about a world-class plywood industry here, or are we  
17 talking about amateurs out drying veneers in wheat  
18 fields or something?

19 MR. CLAUSEN: Well, part of the way the  
20 Chinese plywood is manufactured and has been  
21 manufactured is really a unique process. Air drying  
22 veneers is very Third World, okay? And that has been  
23 done tremendously in the hundreds of mills that exist  
24 in China. Many of these mills are very, very small.  
25 And so there is a peeling operation where they

1 actually are turning logs. You know, I've got  
2 photographs where they were actually hand turning a  
3 big crank to run the log through the knife as opposed  
4 to even being powered by a big Genset. And over time,  
5 it has developed and improved, and new equipment has  
6 been put into a lot of these mills.

7 But the air dried veneer took tremendous  
8 amounts of labor, one, to dry it. And then secondly,  
9 when you actually lay up these high-moisture content  
10 veneers, you would have to -- too much moisture in a  
11 hot press causes blows. It creates pockets of steam  
12 in between the plies of veneer, and they call it a  
13 blow. It actually -- the steam expands under the  
14 temperature, and it actually blows apart the plywood.

15 That high moisture, they would lay, and  
16 still many today still do -- they lay up three plies  
17 of the interplys of veneer, drive off some of that  
18 surface moisture as they're pressing. Then they sand  
19 it, then they put it back through the glue, and put on  
20 two more plies and press it, and drive off more  
21 moisture because this is again air-dried material, and  
22 it's very difficult to get wood down into the 8 to 10  
23 to 12 percent moisture while it's just out in the air.

24 So that process continues until ultimately  
25 they sand it, and then put a face and back on it.

1                   COMMISSIONER ARANOFF: Now, the Respondents  
2 were arguing that when you're dealing with the very,  
3 very thin face veneer, that you have to put that on  
4 wet. You can't dry it, and you have to handle it by  
5 hand because it's so incredibly fine, and we were  
6 shown a small piece of it during the opening  
7 statement.

8                   When the domestic industry makes products  
9 with a very, very thin face veneer -- and I know that  
10 some of the samples we saw said they were available  
11 down to .25 millimeter face veneer -- are you handling  
12 that very thin veneer wet?

13                  MR. THOMPSON: No. It's machine dried. We  
14 have dryers that are capable of drying thin veneer,  
15 although in our mills, because of the thinness, we  
16 have to make adjustments downstream as we handle the  
17 veneers, is the only difference. And so no, we don't  
18 lay it wet.

19                  COMMISSIONER ARANOFF: Okay. So the same  
20 production process that you might use for a thicker  
21 veneer you can use with some adjustments to the  
22 machinery?

23                  MR. THOMPSON: Yes. And I've been in many  
24 Chinese mills, and in many cases they use full-face  
25 material as we do. It's not all laid up wet like it

1 was indicated initially.

2 COMMISSIONER ARANOFF: Okay.

3 MR. ROBERTS: Madame Commissioner, I was the  
4 one you were answering the question about. I was  
5 there like close to ten years ago. In the last ten  
6 years, the product has improved. The reason I still  
7 don't buy it, I'm a very proud American and a veteran,  
8 and I try to buy an American product wherever I can,  
9 and that's just me. And a lot of my customers feel  
10 that way.

11 We actually are seeing specs stating  
12 American made. But also one of the biggest  
13 differences is today with the FSC, people want no  
14 added urea formaldehyde. But my personal -- you know,  
15 I may be different from other people, but I still  
16 prefer to buy an American product.

17 COMMISSIONER ARANOFF: Okay. Well, thank  
18 you for that answer. If the Chinese producers are  
19 sending C and D grade product to the U.S. largely, are  
20 they getting A and B grade from their logs in about  
21 the same proportion? They have some different  
22 species. Are they getting less high grade product?  
23 Are they using it in other markets or for other  
24 applications? Does anyone know?

25 MR. HOWLETT: I would answer on the basis --

1 and given the fact that there's over I want to say  
2 it's 170 some odd million, but in the posthearing  
3 brief we'll lock that number down, of American  
4 hardwood logs that are exported to China for  
5 processing in veneer, I would think that that same red  
6 oak, white oak, maple, cherry, walnut log that's  
7 processed here has to yield about the same grade  
8 distribution irrespective of where it's being  
9 processed.

10 COMMISSIONER ARANOFF: Okay. And so the  
11 native species that are going into the Chinese  
12 product, those are the core?

13 MR. HOWLETT: Yes. Unless they're using a  
14 Russian birch or one of the other tropical species as  
15 the face, yes, or domestic. Right.

16 COMMISSIONER ARANOFF: Okay. All right.  
17 Well, thank you very much. With that, I don't have  
18 any further questions, but, Mr. Malashevich, you have  
19 something to add?

20 MR. MALASHEVICH: Thank you, Commissioner.  
21 When you asked about underselling earlier I didn't  
22 want to shoot from the hip, but I've gathered some  
23 materials here that are very responsive to your  
24 question, and in general I think we could probably  
25 agree that the average margins of underselling found

1 in the earlier years of the POI in this case are not  
2 terribly unusual in absolute terms for cases involving  
3 China or certain other countries around the world.

4 The thing that is unusual in my mind that's  
5 very relevant to your question is the change, the  
6 narrowing of the margins of underselling, after this  
7 case was filed, and the details in that appear on page  
8 38 -- it happens to be the same page I read from  
9 earlier -- with supporting exhibits as appropriate.

10 And the reason why that's so unusual is  
11 because in my experience, and I suspect in general  
12 Commissioners would agree, when you have margins of  
13 underselling of that magnitude if you look over time  
14 it's hard to discern a particular pattern. They jump  
15 all over the place, and whatever pattern they may be  
16 is only for certain of the products surveyed, but not  
17 all of them.

18 In this case we have a perfect link in time  
19 between the progress of this case and a very  
20 significant narrowing of the margins for all six  
21 products across the board at the same time. And to  
22 answer your question, it would be reasonable if you're  
23 trying to discern the effect of the dumping from other  
24 factors -- you name it; formaldehyde, quality,  
25 whatever -- looking at that delta can be very

1       instructive because the delta of course only occurred  
2       in response to the preliminary determination at the  
3       DOC.

4                   The now final determination is much more  
5       severe and in the dumping case now applies to all the  
6       Chinese industry. So the delta that could be  
7       discerned in the data currently of record of the  
8       change in underselling is an understatement of the  
9       share that dumping represents as an explanatory  
10      variable for the margins of underselling generally.  
11      So that's what I submit answers your question.

12                   COMMISSIONER ARANOFF: Thank you very much.

13      Mr. Chairman, I tried to come in under my time, but I  
14      failed. I'm sorry.

15                   CHAIRMAN WILLIAMSON: You're still ahead on  
16      average.

17                   COMMISSIONER ARANOFF: Thanks to all the  
18      witnesses.

19                   MR. MALASHEVICH: I'll cede you all my time,  
20      Commissioner.

21                   CHAIRMAN WILLIAMSON: Okay. Thank you.

22                   MR. LEVIN: With your indulgence,  
23      Commissioner and Mr. Chairman, I think Mr. Thompson  
24      wanted to add one thought to that.

25                   MR. THOMPSON: Well, Ms. Aranoff, your

1 question. I had to give it some thought about the  
2 grades and what comes off of the log. And Kip  
3 indicated that logs coming from the United States and  
4 moving to China would produce the same grades.  
5 However, that's only true if the processes involved  
6 are capable of not doing harm to the log as it's being  
7 peeled.

8 And so our mantra in our Veneer Division in  
9 which we peel that very thin veneer is buy the best  
10 log you can for the grades you're interested in making  
11 and do no harm. I would say that based on my travels  
12 in China the veneer that's peeled over there has got  
13 some harm to it and would fall into lower -- have the  
14 propensity to fall into lower grades. And so I wanted  
15 to -- it's a complicated response. Logs have the  
16 potential, but you have to process them correctly.

17 CHAIRMAN WILLIAMSON: Thank you.  
18 Commissioner Pinkert?

19 COMMISSIONER PINKERT: Thank you, Mr.  
20 Chairman. I just have a couple of follow-up  
21 questions.

22 First off, does this panel agree with  
23 Respondents that the Commission obtained a high degree  
24 of cooperation from subject producers in this case?

25 MR. LEVIN: No. There's a huge gap between

1 the number of questionnaire responses and what we  
2 think to be the most comprehensive listing of Chinese  
3 hardwood plywood exporters to the United States, which  
4 is the list of qualifying companies for CARB  
5 certification. I think they organized themselves very  
6 nicely and very, very quickly, but I think there's a  
7 huge gap in the number of companies.

8 COMMISSIONER PINKERT: Thank you. Now, my  
9 next question is one that I would ask Respondents to  
10 comment on as well in the posthearing, but you can  
11 either address it here or in the posthearing or both.

12 I understand the arguments about petition  
13 effect, and the focus of your panel presentation on  
14 petition effect was look at how the market share of  
15 the subject imports went down and the financial  
16 performance of the domestic industry went up as a  
17 result of the petition and the preliminary  
18 determination.

19 But I don't understand why this causal  
20 mechanism that you've identified doesn't work the same  
21 way during the period from 2010 to 2012. And let me  
22 be more explicit about that. During that period you  
23 see subject import market share increase. Why don't  
24 we observe the trend in financial performance that one  
25 would expect based on the causal mechanism that you've

1 identified after the petition in the preliminary?

2 MR. DOUGAN: If I can answer that question  
3 in part, Commissioner? And I believe Mr. Malashevich  
4 answered or gave me the intro to this answer to some  
5 degree, which is it wasn't only the volume and the  
6 market share effects of the Chinese imports during the  
7 earlier parts of the POI that were causing harm, but  
8 their presence and their pricing and the way that they  
9 disrupted the pricing structure of all grades for all  
10 participants in the market caused harm in ways that  
11 may not have been observed in changes in market share,  
12 and their withdrawal from the market and the spike in  
13 their prices, you really see in reverse what was going  
14 on prior to that.

15 So there was the increase before, but the  
16 harm was perhaps observed in other ways and what  
17 improvements were not allowed to happen.

18 COMMISSIONER PINKERT: And just to clarify  
19 your testimony on the pricing during the petition and  
20 preliminary period, I thought I heard one of the  
21 witnesses say that the duty deposits were being  
22 absorbed by the importers so that it was not having an  
23 effect on the pricing in the U.S. market. Is that  
24 true? Is that what you would say?

25 MR. MALASHEVICH: This is Bruce Malashevich.

1       It's not what I'd say -- everyone is entitled to his  
2       or her opinion -- but it's what the record says.

3               Of course, those not under the APO don't  
4       have access to the confidential record, but as I was  
5       saying earlier in response to a question from  
6       Commissioner Aranoff I have never seen a case where  
7       the closeness in time and the lack of other  
8       explanatory events can explain the cross-the-board  
9       increase -- decrease, excuse me -- in the margin of  
10      underselling because even though domestic prices also  
11      increased, subject import prices increased faster.  
12      There's no other explanation other than the progress  
13      of the case.

14              And I'm not sure if that answers your  
15      question, Commissioner, but I think everyone to some  
16      extent -- a lot of the witnesses in the room, and I'm  
17      not saying this critical at all, but where they stand  
18      in the marketplace they're holding different parts of  
19      the elephant. The Commission and staff fortunately  
20      and the higher guns have access to all the parts of  
21      the elephant in the confidential record, and I think  
22      staff has done a particularly good job in this case of  
23      putting everything together in a fashion that lends  
24      itself to analysis.

25              So once again I call your attention to the

1 relevant sections of Petitioners' prehearing brief.  
2 Otherwise I'll be happy to do anything else you would  
3 like me to.

4 COMMISSIONER PINKERT: Well, what I'd like  
5 you to look at for the posthearing is this. You  
6 talked about the pricing during that period after the  
7 petition and the preliminary results came out. You  
8 talked in your original panel testimony about the  
9 withdrawal of market share; that is, that the subject  
10 imports lost market share during that period.

11 So how am I supposed to weigh those two  
12 things against one another? If they're pulling out of  
13 the market and they're increasing their prices, what's  
14 the factor that's having the most powerful influence  
15 on the market?

16 MR. MALASHEVICH: Well, I can answer that in  
17 part now if I may, and I think the factor is as the  
18 record shows, and it was touched on in somebody's  
19 testimony this morning to the effect that the  
20 preliminary determination in particular came to  
21 something of a shock to the system.

22 And it isn't simply a matter of importers  
23 providing for coverage of the duty deposits. It's the  
24 uncertainty it placed into the marketplace as to the  
25 ultimate outcome of this case, and importers simply

1 refused in some cases to continue doing business in  
2 the United States or to substantially reduce their  
3 exposure to the United States.

4 I don't know what's APO or not so I'm going  
5 to be very careful, but there's evidence in the record  
6 about a lot of importers formerly participating that  
7 simply said you know, I'm done until this plays out.  
8 so there's a scarcity factor that I think entered into  
9 it.

10 It's not just a simple passing through the  
11 costs and the duties. It's the suddenness and the  
12 scarcity factor affecting the subject imports that  
13 caused supply and demand. The imports were raising  
14 prices, cutting back on the supply they were willing  
15 to send to the United States. Prices rose.

16 COMMISSIONER PINKERT: Well, again for the  
17 posthearing what I want you to look at is whether the  
18 increase in subject import pricing -- not the increase  
19 in pricing in the market generally, but the increase  
20 in subject import pricing -- was important during that  
21 period after the petition and the preliminary results  
22 or whether the important factor in the market was  
23 really the reduction in supply of the subject imports.

24 MR. MALASHEVICH: I will do my best,  
25 Commissioner.

1 COMMISSIONER PINKERT: Thank you.

2 CHAIRMAN WILLIAMSON: Thank you.

3 Commissioner Johanson? Nothing further? Okay. Does  
4 any Commissioner -- yes, Commissioner Broadbent?

5 COMMISSIONER BROADBENT: Just one. I mean,  
6 I think we're all kind of struggling a bit here where  
7 we're trying to find injury, and that's usually a  
8 price/volume impact on the industry.

9 And you didn't lose market share during the  
10 period of investigation and the unit values remained  
11 flat until we reached the point in time that the  
12 preliminary came out and I'm just wondering. Is this  
13 more like material retardation rather than injury? I  
14 mean, you couldn't raise prices as much as you want?  
15 Can anybody respond to me on that?

16 MR. CLAUSEN: I think during the period we  
17 did lose market share, and we lost significant market  
18 share because if you look at the increase in the  
19 amount of Chinese plywood that was brought into the  
20 country during that period it offset and our  
21 production was relatively flat. That was the market  
22 share that we lost.

23 You know, the improvement in the last couple  
24 of years in the housing industry going from 500,000 to  
25 this year somewhere around 950,000 and the remodeling

1 index improving going over the baseline for the first  
2 time in the last two years, that is the market share.

3 You know, remember we were in this tremendous great  
4 recession, and we have struggled to maintain all our  
5 market share as the housing went into this deep  
6 depression.

7 The housing industry felt it probably worse  
8 than any other industry in this country, and that  
9 increase in the Chinese percent of production -- and I  
10 know, Bruce. It was 23 percent in the last two years  
11 I think. But that's all out of our hide I would say.

12 COMMISSIONER BROADBENT: So there was a  
13 certain amount of that demand that you felt that you  
14 owned that you didn't get when the market went up?

15 MR. CLAUSEN: Absolutely. Absolutely. If  
16 you look back 10 years ago, I think every hardwood  
17 plywood producer in the United States would say that  
18 they shipped tremendous, tremendous volumes to the  
19 south central part of this country in lower grade  
20 plywoods, and I'm talking Texas, Oklahoma, Arkansas,  
21 Louisiana. Huge, huge volumes of what we'd term in  
22 the C and D grade type veneers.

23 That market today is almost entirely owned  
24 by the Chinese market. We ship some in there, and I'm  
25 sure Columbia does and States and all the other

1 manufacturers, but that market is almost totally gone  
2 for the domestic manufacturer because of price, and  
3 it's the same product. It's exactly the same product.

4 MR. MALASHEVICH: If I may add, please,  
5 Commissioner? Bruce Malashevich speaking. Actually,  
6 Mr. Clausen's argument is summarized very well, in the  
7 Commission's preliminary determination. At page 19 it  
8 says:

9 "Thus, despite increasing demand over the  
10 period of investigation the domestic industry was able  
11 to sustain only a low, albeit positive, operating  
12 margin and suffered from low capacity utilization. We  
13 find for purposes of the preliminary phase of these  
14 investigations that there is a reasonable indication  
15 that," and here's the relevant part, "the large and  
16 increasing volume of low-priced subject imports which  
17 took market share from the domestic industry as demand  
18 was recovering from the recession had an adverse  
19 impact on the domestic industry," and then you go on  
20 to discuss the final phase.

21 COMMISSIONER BROADBENT: Yes. I'm always a  
22 little -- we have a pretty low standard on initiating  
23 a case because of this American Lamb decision and so  
24 forth. So we try to give folks a hearing to make  
25 their case to us. So quoting back the prelim doesn't

1 necessarily help what we're trying to find out as we  
2 tease out some of these numbers.

3 MR. MALASHEVICH: I'm well aware,  
4 Commissioners. Just a neat way of summarizing Mr.  
5 Clausen's testimony.

6 COMMISSIONER BROADBENT: Okay. Good. Thank  
7 you very much. And I appreciate all the testimony.

8 Mr. Roberts, I was able to look up your  
9 website and what your daughter did there, it was  
10 beautiful. Yes. This is this thing I just got from  
11 our IT guys, which I'm having fun looking at, but it  
12 was neat to be able to go and see it, and I saw your  
13 family picture there and stuff.

14 MR. ROBERTS: Okay.

15 COMMISSIONER BROADBENT: But that kind of  
16 makes it human to us, and we really appreciate all the  
17 effort everybody did to do the presentation. Thank  
18 you very much.

19 CHAIRMAN WILLIAMSON: Thank you. Does any  
20 other Commissioner have questions?

21 (No response.)

22 CHAIRMAN WILLIAMSON: If not, does staff  
23 have any questions for this panel?

24 MR. McCLURE: Jim McClure, Office of  
25 Investigations. Staff, as well as I'm sure everyone

1 else in the room, is hungry. We have no questions.

2 CHAIRMAN WILLIAMSON: Okay. Do Respondents  
3 have any questions for this panel?

4 MALE VOICE: No.

5 CHAIRMAN WILLIAMSON: Okay. Okay. Then  
6 it's time for a lunch break, and we will resume at  
7 2:00. Let me remind you that this room is not secure,  
8 so if you have any propriety or business confidential  
9 information please be sure to take it. And we'll see  
10 you again at 2:00. Thank you.

11 MR. LEVIN: Mr. Chairman, Commissioners,  
12 thank you very much.

13 CHAIRMAN WILLIAMSON: You're welcome.

14 (Whereupon, at 1:03 p.m., the hearing in the  
15 above-entitled matter was recessed, to reconvene at  
16 2:00 p.m. this same day, Thursday, September 19,  
17 2013.)

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1 injury, causation and the data that should be  
2 considered by the Commission. I'll refer to the  
3 slides to illustrate the main points in my testimony.

4 The first slide summarizes the key industry  
5 indicia from the prehearing report. As you can see  
6 from these numbers, this is not an injured industry.  
7 The upward trends in every factor are obvious,  
8 including from 2010 to 2012. This industry-wide  
9 improvement coincided with strong increases in demand  
10 as the economy and the market for wood products,  
11 including hardwood plywood, surged.

12 As summarized in the prehearing report, the  
13 main drivers for hardwood plywood demand -- housing  
14 starts, remodeling activity, kitchen cabinet sales and  
15 RV shipments -- these all increased substantially,  
16 particularly in 2012 and then again in 2013. The  
17 domestic producers benefitted from this rising tide.  
18 We can see that in these numbers. Thus, before even  
19 getting to the question of causation we see that the  
20 domestic injury is not materially injured.

21 My next point concerns the appropriate data  
22 set to quantify the subject imports. We talked a  
23 little bit about this this morning in the questions, I  
24 think. The HTS categories used in the prehearing  
25 report are not specific to subject plywood. This is

1 indisputable. As shown in the second slide, 75 of the  
2 82 HTS categories used by the Commission to calculate  
3 total imports overlap with categories identified in  
4 the 2011 Multilayered Wood Flooring case.

5 The next slide shows this overlap in terms  
6 of the total volume of imports from China. The very  
7 small red bars that you can make out at the top of  
8 each stack show the quantity imported under the  
9 hardwood plywood categories, those seven HTS codes.  
10 The massive blue bars show that nearly all imports are  
11 captured in the basket categories that could include  
12 plywood, nonsubject flooring or perhaps other  
13 nonsubject products.

14 In the Wood Flooring case, the Commission  
15 recognized that the HTS data are unreliable precisely  
16 because of this overlap. It would be inconsistent and  
17 inappropriate to reverse course and rely on these same  
18 basket categories to calculate plywood imports in this  
19 case. This is particularly true when the Commission  
20 has received a strong response rate with usable  
21 questionnaires provided by numerous importers.  
22 Purchasers' questionnaires -- we didn't hear much  
23 about those this morning, but purchasers'  
24 questionnaires corroborate the high coverage. Nearly  
25 every importer listed as a significant supplier also

1 submitted an importer questionnaire.

2 Using official statistics to calculate  
3 market shares results is an unbalanced comparison that  
4 does not accurately reflect actual shipments of  
5 imported plywood into the market. A fair analysis of  
6 import trends requires comparing U.S. producer  
7 shipments with importer shipments. Contrary to the  
8 Census data, Table C-II in the prehearing report shows  
9 that shipments from all sources increased in 2013 as  
10 would be expected in a rising market.

11 In the next slide, we see that U.S. and  
12 subject import shipments increased moderately, and  
13 those are the first two bars on the graph. The third  
14 bar shows nonsubject imports, and they grew even  
15 faster, increasing by 113 million square feet. That's  
16 almost a 20 percent increase.

17 The next chart in Slide 5 combines shipment  
18 volumes and market shares. U.S. producers maintain  
19 their share throughout the period. These are the same  
20 import volumes that we saw in the previous chart. So  
21 U.S. producers maintain their share throughout the  
22 period while competition occurred between subject and  
23 nonsubject imports if they swap market share back and  
24 forth. So a negative photo image I think we heard  
25 somebody describe it as this morning.

1           With respect to pricing, yes, prices did  
2           increase in 2013. This is not, however, due to any  
3           so-called petition effect, but to rising demand and a  
4           general increase in prices for hardwood plywood and  
5           other wood products. For example, in the next slide  
6           this graph shows that prices of hardwood lumber  
7           exhibited a comparable trend line to hardwood plywood  
8           prices.

9           The price increases from 2012 to 2013 are  
10          not due to the petition, but are linked to the strong  
11          trends in key sectors driving demand. And we've  
12          talked. This came up again in some of the questions  
13          this morning about all these sectors -- housing  
14          starts, remodeling activity. Everything has been  
15          going up, and it's been going up for a while.

16          Now, my final point concerns the attenuated  
17          competition between subject imports and domestic  
18          products. The record is replete with comments from  
19          purchasers on the limited competition between imported  
20          and domestic plywood. Put simply, the products are  
21          physically different in terms of core, panel thickness  
22          and thickness of the face veneer. Purchasers buy  
23          plywood based on these product characteristics.

24          Now, a face veneer thickness isn't  
25          everything. It is an incredibly important

1 distinguishing characteristic of U.S. and imported  
2 plywood. It is possible in certain cases to use  
3 plywood of different face veneer thicknesses. As the  
4 industry witnesses will tell you, however, in the real  
5 world this simply isn't done in a substantial way.

6 Slide 8 demonstrates the sharp divergence in  
7 the face veneer thickness of imported and domestic  
8 plywood. Now, Petitioners kept saying this morning  
9 that they can produce this thin face veneer. That's a  
10 great sound bite, but the Commission has a lot of data  
11 in front of it, and when you look at the data on the  
12 record it shows this very divergent picture.

13 As illustrated in this chart, there's  
14 virtually zero overlap in the two main size ranges.  
15 Almost all U.S. products are thicker than 0.6  
16 millimeter and nearly all subject imports are less  
17 than 0.4 millimeter. This clear separation is why  
18 importers and purchasers will tell you that there is  
19 limited or no competitive overlap, and I think you'll  
20 hear that from the witnesses too.

21 Finally, the proposed elasticity of  
22 substitution range of two to four in the staff report  
23 indicates that staff recognized that competition  
24 between domestic and subject hardwood plywood is  
25 limited. Even the higher number confirms that this is

1 not the interchangeable product that Petitioners are  
2 trying to present. Chinese and domestic plywood are  
3 different products, and subject imports are not  
4 injuring the domestic industry. Thank you.

5 MR. GRIMSON: Thank you very much, Tom.

6 Our next witness is Shawn Dougherty from  
7 Northwest Hardwood.

8 MR. DOUGHERTY: Good afternoon. Thank you  
9 for the opportunity to speak here again at the  
10 Commission. My name is Shawn Dougherty. I'm a board  
11 member of the AAHP, and I am the Director of Asia for  
12 Northwest Hardwoods.

13 Northwest Hardwoods is one of the largest  
14 producers of hardwood lumber in the United States with  
15 18 manufacturing facilities and annual production of  
16 approximately 400 million board feet. We employ 1,300  
17 Americans in our sawmills, remanufacturing, related  
18 sales and support facilities. Our industry produces  
19 about seven billion board feet annually. We are one  
20 of the largest hardwood lumber exporters in the U.S.,  
21 and China is our largest of nearly 40 overseas  
22 markets.

23 We also import hardwood plywood from China  
24 and other countries to provide a diverse product  
25 offering of panels to meet our customers' changing

1 needs in the U.S. Just like the Petitioners, our  
2 customers include manufacturers of cabinetry,  
3 furniture, flooring, RV and millwork, which often we  
4 refer to as the industrial segment.

5 With the perspective of a lumber producer  
6 selling to both U.S. and Chinese customers, I want to  
7 focus this afternoon on the raw materials and products  
8 that are available in both markets. In our business  
9 we call this the wood basket. The species of trees  
10 selected, grade of logs utilized, manufacturing  
11 capabilities and the mills' proximity to the resource  
12 all have significant impact on both the products that  
13 can be manufactured and the mills' capacity to  
14 produce.

15 All manufacturers try to make the most  
16 efficient use of available nearby raw materials. The  
17 raw material for a panel is approximately 70 to 80  
18 percent of the panel's cost, total cost. The raw  
19 material wood basket in China is ideal because much of  
20 the hardwood plywood industry is located very close to  
21 tree plantations in the eastern, southern and  
22 southeastern provinces. These provinces are near to  
23 the coast, which means near to ports.

24 The primary species used in China for  
25 plywood cores are unique species of fast growth poplar

1 and eucalyptus. Both are harvested from plantations  
2 and farms. In the case of poplar, from seedling to  
3 harvest the cycle is only seven to 10 years, and as  
4 short as five years for eucalyptus. The logs are  
5 relatively small. For example, Chinese poplar is  
6 typically 20 to 25 centimeters in diameter, and  
7 eucalyptus is around 15 centimeters.

8 In contrast, in the U.S. the predominant  
9 species used by the domestic hardwood plywood  
10 producers for their core stock are softwoods such as  
11 Douglas fir, which has a 40 to 60 year growth cycle  
12 and the average diameter is 50 centimeters. Why does  
13 this matter?

14 The difference in growth, the time from  
15 seedling to harvest, plus the distance in which the  
16 raw material must travel to reach the mills explains  
17 why China's wood basket is so efficient.

18 You see in front of you samples of typical  
19 Chinese birch and poplar logs and U.S. domestic red  
20 oak log that was cut at one of our mills here on the  
21 east coast.

22 The diameter of Chinese birch is 25  
23 centimeters on average. The diameter of red oak can  
24 be 90 centimeters and above. This one here is only 53  
25 centimeters.

1           So even the dramatic difference you see here  
2           is understated.

3           Keep these logs in mind as I turn now to the  
4           peeling of the face veneer. It is the quality of the  
5           face veneer that determines what grade the panel will  
6           receive, with the highest grading AA and so on down to  
7           E and below.

8           At the preliminary conference Mr. Kip  
9           Howlett of the HPVA said, "God didn't create a AA  
10          tree. He created a tree that will have maybe five  
11          percent or less AA, 10 percent A, B, C; and then there  
12          are Ds, Es, 1s, 2s and 3s. And you've got to find  
13          someplace to utilize the entire log."

14          I'm not sure at all what species he was  
15          referring to, but I do know that the handbook his own  
16          organization publishes states that 58 percent of the  
17          log is recovered into AA through C grade product.

18          Also his statement overlooks the fact that  
19          there are different species of trees as you can see  
20          right in front of you. The petitioners are in a  
21          unique position as they start with a beautiful and  
22          carefully selected log that has taken a half century  
23          to grow and is large in diameter. They want to  
24          maximize the output of the higher grade veneer that  
25          shows off the natural beauty of the resource which

1 adds value to their decorative panels.

2 Before they even see the log, the logs are  
3 sorted and only the best are designated as veneer  
4 logs. So right from the beginning a selection process  
5 occurs that increases the chances of higher grade  
6 recovery when the logs are peeled or sliced.

7 For their face veneers, the domestic  
8 manufacturers predominantly slice or peel red oak,  
9 white oak, cherry and hard maple. These are very side  
10 diameter veneer quality logs that will yield a very  
11 large diameter of A through C high grade face veneers  
12 and are ideally suited to serve the architectural and  
13 decorative applications.

14 In China by contrast, the log predominantly  
15 used by the Chinese plywood producers for face veneer  
16 is Chinese birch which is a much smaller diameter log  
17 that naturally generates much lower grades. Because  
18 the logs themselves are small, it is only logical for  
19 the Chinese to peel very thin veneers. Otherwise, if  
20 the logs were peeled as thickly as the U.S. industry  
21 which peels down to only about 0.6 millimeters, the  
22 Chinese would get only a few rotations before the log  
23 would be gone. In China the average veneer face for  
24 birch, for example, is 0.22 millimeters and 0.28  
25 millimeters.

1           This means that the Chinese get about two to  
2 three times the square footage of veneer out of the  
3 same log as the U.S. producers can, which are  
4 significantly higher yields.

5           Put another way, it means that American  
6 buyers of domestic plywood are getting almost three  
7 times more face veneer than if they buy a Chinese  
8 plywood product.

9           I have here some samples of domestic and  
10 Chinese face veneers. There are two sets -- red oak  
11 and birch. And you can clearly see for yourself the  
12 difference in the thickness. It's tangible and  
13 transparent.

14           If you lay the thin peeled birch over the  
15 card attached to it, you will see, you can read right  
16 through it. Not so with the thick face. The  
17 difference is real and it has an impact on how the  
18 panel is produced and the ultimate end use of this  
19 product.

20           Because they are peeling so thin from small  
21 diameter logs, the Chinese do not produce high grade  
22 products. The resource does not lend itself to this.

23           Their output of face grade veneer is much more  
24 concentrated on D, E and below.

25           Domestic producers maximize their yield of

1 higher grade face veneer by clipping and splicing  
2 veneers to remove imperfections using a Kuper splicer  
3 which is like a large sewing machine. It would be  
4 rare in China, on the other hand, to get an A grade  
5 veneer.

6 Why don't the Petitioners just peel their  
7 large diameter logs very thin. They peel thicker to  
8 emphasize the beauty of the wood which is their  
9 natural niche. This means a thick-faced veneer that  
10 can be sanded and finished to show off the wood's  
11 natural characteristics.

12 I hope you see that there are fundamental  
13 differences between the starting raw materials in  
14 China versus the U.S. These differences flow through  
15 production processes that are tailored to maximize the  
16 value in the finished products.

17 The product differences dictate how the  
18 Chinese and domestic products are sold for different  
19 end uses as we will discuss today.

20 Thank you.

21 MR. GRIMSON: Thank you, Shawn.

22 Our next witness will be Greg Simon from Far  
23 East American.

24 MR. SIMON: Good afternoon.

25 My name is Greg Simon. I'm the co-chairman

1 of the American Alliance for Hardwood Plywood and  
2 Executive Vice President of Far East American,  
3 Incorporated.

4 We are an importer of the subject  
5 merchandise from China and other countries. We also  
6 have joint venture ownership interests in two Chinese  
7 mills producing hardwood plywood.

8 I have been at Far East American for the  
9 past 22 years and have experience with all aspects of  
10 the import plywood business including logistics,  
11 procurement, sales and management. Today I proudly  
12 serve as a board member for the North American  
13 Building Material Distributors Association as well as  
14 the International Wood Products Association.

15 Our company specializes in the distribution  
16 of imported plywood and wood products from China as  
17 well as Russia, Indonesia, Malaysia and South America.

18 We supply manufacturers and distributors.

19 My testimony today will focus on difference  
20 in the production process and how that affects the end  
21 product.

22 Based on my time in China, a third country,  
23 and domestic mills, I'm thoroughly familiar with the  
24 differences in the production process for making  
25 plywood in China versus the United States.

1           There are critical differences in the  
2           manufacturing process which flow through to almost  
3           every way in which the Chinese and domestic products  
4           are sold and used.

5           We have a PowerPoint presentation that I  
6           will refer to in this discussion.

7           In general the Chinese use a labor-intensive  
8           two-step layup process to produce plywood whereas the  
9           domestic producers primarily employ a much more highly  
10          automated one-step layout process.

11          To make the core the Chinese first assemble  
12          each of the different layers by hand. They mainly  
13          repair and tape together small veneer pieces into full  
14          sheets creating interplys. By manually taping the  
15          veneer the Chinese are able to use much lower quality  
16          veneer pieces in their process.

17          The process in China is much like putting a  
18          jigsaw puzzle together. They apply glue and press the  
19          multiple layers together into a platform made entirely  
20          of thinly peeled core veneers.

21          On the domestic side the industry  
22          predominantly uses core composing machines to create  
23          uniformed seamless interplys that are stitched and  
24          spliced together to decrease core defects.

25          The Chinese typically air dry their core

1 veneers and further dry them, if necessary, by using  
2 the cost-effective hot press instead of dryers. By  
3 contrast, U.S. manufacturers use a kiln to dry the  
4 core veneers to a low moisture content which the  
5 Petitioners say accounts for 70 percent of the thermal  
6 energy consumed in plywood production and 60 percent  
7 of the mill's total energy requirement.

8 The U.S. and Chinese production process  
9 diverges even more from this point forward. As I  
10 mentioned, the Chinese press the core veneers together  
11 into a platform. Chinese producers run these  
12 platforms through a calibration sander where it is  
13 sanded smooth and tight, prior to adding the thin face  
14 and back veneers.

15 This process corrects any thickness  
16 variation in the core caused from efficiently  
17 utilizing lower quality core components or defects  
18 resulting from manually assembling the cores by hand.

19 As the Chinese production process continues,  
20 after the platforms are run through the calibrator, a  
21 light colored base coat or paint primer is applied to  
22 both outer layers of the platform to mask  
23 imperfections on the surface of the core.

24 The domestic industry rarely takes this  
25 intermediary step of calibrating the core.

1           We next take the second and final steps of  
2 the two-step layout. Here's the big difference with  
3 the U.S. manufacturers. The paper thin veneer cannot  
4 be laid up in an automated dry assembly process, nor  
5 can it be joined together with splicing machines as is  
6 done in the United States. So the Chinese handle the  
7 face veneers in what is known as the wet lay up  
8 process. They apply a glue line to both sides of the  
9 calibrated primed platform and adhere the thin, wet  
10 face and back veneers to the outer surfaces of it by  
11 hand.

12           Then the plywood panel is once again sent to  
13 a high pressure cold press and a quick cycle hot press  
14 to complete the glue curing process.

15           In the U.S. they predominantly use a one-  
16 step process where there is no calibration or special  
17 preparation of the core layers of veneer. The  
18 domestic industry relies on the fact that they have  
19 uniform machine joint interplys and exceptionally  
20 thick face and back veneers to hide core imperfections  
21 that may transfer through the face.

22           Typical U.S. face veneer runs 0.6 to 0.8  
23 millimeters in thickness. Put another way, this is  
24 three to four times thicker when compared to Chinese  
25 veneers.

1           Domestic hardwood plywood manufacturers do  
2 not peel or slice veneer as thin as they do in China  
3 because it would deprive them of their main value-  
4 added product attribute, the ability for end users to  
5 sand and stain the product for decorative  
6 applications.

7           But this begs the question. Why would  
8 anybody want to buy beautiful thick-faced veneer  
9 plywood to cover it up with a laminate, paint or  
10 flooring?

11           This gets me to my next topic, differences  
12 in the Chinese versus domestic product.

13           We have here samples of domestic three-  
14 quarter inch and Chinese 18 millimeter plywood so you  
15 can do a side by side comparison yourself.

16           The first thing you'll notice is that the  
17 domestic product is thicker than the Chinese. If you  
18 put the two panels flush and run your finger from the  
19 domestic product to the Chinese product you will feel  
20 a drop off from the thicker domestic panel to the  
21 thinner Chinese panel.

22           Even at the nominal thickness you were  
23 comparing an 18 millimeter Chinese product with a  
24 19.05 millimeter domestic product.

25           Second, if you look at the edges of the

1 panel you will see differences in the core. Most  
2 domestic product has a soft wood core while the  
3 Chinese is hardwood. You can see that the Chinese  
4 product uses a large number of thinner layers of  
5 veneer. The domestic core veneer layers are much  
6 thicker and there are fewer of them. For applications  
7 such as paper overlay laminating, the Chinese product  
8 is superior to the domestic product because it is a  
9 very tightly calibrated thickness.

10 Third, there is also a dramatic difference  
11 in the face veneer itself. Chinese face veneer is so  
12 paper thin that it does not perform well when sanded  
13 or stained, which makes it unsuitable for decorative  
14 applications.

15 These extreme differences in face veneer  
16 thickness are critical to understanding that  
17 domestically produced plywood and Chinese import  
18 plywood are two fundamentally different non-competing  
19 products.

20 Fourth, the domestics dominate the market of  
21 higher grade veneers and the Chinese are focused more  
22 in the lower grade veneers. The fact is the domestic  
23 industry has grown by making visually beautiful,  
24 thick-faced product that can be sanded and finished in  
25 custom and decorative applications.

1           Turning now to end uses of plywood.

2           You will hear today from the kitchen cabinet  
3 industry and how they need both domestic and Chinese  
4 product. Beyond cabinets, the functionality of the  
5 Chinese product is also used in manufactured housing  
6 and recreational vehicles where the plywood surface is  
7 covered up. Underlayment is another major market  
8 segment for the Chinese imports. By underlayment we  
9 mean hardwood plywood that is installed underneath  
10 flooring.

11           This is truly a market segment that the  
12 domestics do not serve and never have in my many years  
13 in the industry.

14           Chinese underlayment is a very thin panel,  
15 4.6 millimeter total thickness with very thin non-  
16 decorative face veneers. In the preliminary hearing  
17 one of the Petitioners said that he can compete in  
18 this market, but he was clearly referring to  
19 structural plywood which is not part of this  
20 investigation.

21           The underlayment market is one where the  
22 Chinese replace the Indonesian and Malaysian producers  
23 of similar thin panels that formerly dominated the  
24 U.S. market. You will hear more testimony this  
25 afternoon as to the impact that duties can have in the

1 marketplace.

2           Based on my 20-plus years in the industry, I  
3 can tell you that the domestic industry is not going  
4 to increase its sales if the Chinese product is barred  
5 from the market. Rather, end users will be forced to  
6 replace the Chinese plywood with other third country  
7 imports.

8           You don't have to take my word for the fact  
9 that the Chinese and domestic products are  
10 fundamentally different and serve different market  
11 segments. You can listen to what the Petitioners  
12 themselves have said.

13           As a leading importer, Columbia Forest  
14 Products previously stated that they offer their  
15 customers a mix match of domestic and imported panels  
16 to complement the domestic product line and that the  
17 uses for Chinese plywood imports is for utility  
18 panels, shelving, frame stock, laminating, backs and  
19 bottoms. We simply couldn't agree more.

20           Timber Products also stated that there are  
21 two market segments stating, quote, "We learned long  
22 ago that Chinese hardwood plywood filled some  
23 customers' needs at a different level than we produce  
24 domestically."

25           These statements by the Petitioners confirm

1 that Chinese plywood is serving a segment of the U.S.  
2 market that the domestic manufacturers cannot.

3 Finally, Far East American sells to many  
4 distributors in the United States who also buy from  
5 the Petitioners. Most of those that I spoke to about  
6 this completely agree with what we were saying about  
7 the differences in the product. However, when we  
8 asked them to testify to that effect here today most  
9 apologetically claimed that they could not because the  
10 legitimately feared retribution by members of the  
11 domestic plywood industry.

12 Many distributors are required to  
13 participate in special programs with the Petitioners  
14 that prohibit the distributor from offering products  
15 from other domestic producers in designated regions.  
16 But they're completely free to buy Chinese hardwood  
17 plywood imported from my company or from one of my  
18 competitors and sell it right alongside the  
19 Petitioner's product. The reason is obvious. The  
20 Petitioners know that they are competing with other  
21 domestic producers, in effect with each other, and  
22 that the Chinese product is in a different world.

23 MR. GRIMSON: Thank you very much, Greg.

24 Our next witness will be Mr. Bill Weaver.

25 MR. WEAVER: Good afternoon and thank you.

1           My name is Bill Weaver. I'm the CEO of  
2 Canyon Creek Cabinet Company located in Monroe,  
3 Washington. I've been in the cabinet industry for 40  
4 years, the last 19 as CEO and President at Canyon  
5 Creek.

6           I've also served for the last 13 years on  
7 the board of directors of the Kitchen Cabinet  
8 Manufacturers Association known as the KCMA, and I've  
9 fulfilled several executive positions in the KCMA  
10 including serving as President for two years.

11           As I listened to the testimony this morning  
12 I felt that I was living in a parallel universe, that  
13 I had lived during those same years but my  
14 interpretation of some of those outcomes, as you will  
15 find out, are different than what you have heard this  
16 morning.

17           The cabinet industry is approximately \$8.6  
18 billion a year. We're hardly a niche industry. Our  
19 industry uses both domestic and imported plywood for  
20 cabinet construction.

21           My competitors and I are here today to  
22 directly and unequivocally refute the claim that the  
23 Petitioners have made that the need for thin-faced  
24 veneer plywood is a red herring.

25           Canyon Creek manufactures custom frameless

1 and framed cabinetry for kitchens, baths and other  
2 rooms in the house. Like the rest of the country, we  
3 have had some hard times. These following statistics  
4 will show you part of that.

5 In 2007 we had 700 employees and factory  
6 utilization was 100 percent of our capacity.

7 In 2012 we averaged 208 employees and  
8 utilization was 35 percent.

9 From 2008 until 2012 we were unable to raise  
10 our prices in spite of increased cost.

11 These numbers are very similar to what you  
12 heard this morning from the Petitioners. They went  
13 through the same thing that we did. We don't blame  
14 this on Chinese imports in our industry. We blame it  
15 on an economy that tanked, a home-building industry  
16 that declined dramatically, and it wasn't due to  
17 imports.

18 It's amazing, though, how our statistics  
19 mirror theirs.

20 The improving economy has allowed us to  
21 increase our work force 24 percent this year and our  
22 increased utilization is up to about 50 percent --  
23 just like the Petitioners stated. I know a lot of  
24 other cabinet companies having served in the KCMA  
25 board and their statistics will mirror ours.

1           I'm troubled by the actions that have been  
2 taken by the hardwood plywood manufacturers to  
3 restrict imported plywood. Many of the executives of  
4 the petitioning companies are personal friends of mine  
5 and are men I have known, trusted and done business  
6 with for many years. But their actions have greatly  
7 damaged my business and the entire cabinet industry in  
8 the United States.

9           Our material costs have increased; our  
10 supply chains are disrupted; we have delayed new  
11 product introductions due to uncertainty in the supply  
12 chain; and the ability to plan for the future is in  
13 turmoil.

14           It allows Canadian and Chinese cabinet  
15 imports an immediate price advantage.

16           This petition will chase jobs out of the  
17 U.S.. I have never seen a single issue impact our  
18 industry as this is, and it could mark the beginning  
19 of the end of the almost 100,000 jobs in the cabinet  
20 industry.

21           The U.S. cabinet industry is the largest  
22 woodworking industry left in the U.S. and the largest  
23 consumer of domestic wood plywood and it may well  
24 disappear.

25           While each of us here have different

1 strategies to cope with the results of this petition  
2 if it is upheld, if these duties stay in place I can  
3 tell you with great certainty that we at Canyon Creek  
4 may not be able to fully manufacture our cabinets here  
5 in the United States. We've already begun exploring  
6 moving some of our manufacturing capabilities to  
7 Canada and are exploring the use of alternative  
8 materials. I guarantee you that none of these  
9 alternative materials will come from the U.S. plywood  
10 manufacturers, and let me explain why in a minute.

11 There have been many claims made about how  
12 Chinese imports have hurt the U.S. plywood business  
13 and many of them are misleading. I'd like to explain  
14 what we use Chinese plywood for and give you my  
15 perspective from 40 years in the industry.

16 Let me briefly address the history of the  
17 use of plywood for cabinet interiors.

18 In the 1970s when I first started in the  
19 cabinet industry there were two primary species of  
20 plywood for interiors. Fir, softwood plywood from the  
21 U.S., and luan from primarily the Philippines. In the  
22 late 1970s to '80s, fir fell out of favor because of  
23 its finish properties, boat patches, and how the grain  
24 telegraphed through overlays.

25 Luan continued until the supply diminished

1 and was replaced by various other imported species.  
2 Because of the wide color difference in imported ply  
3 and the desire to use multiple species, most cabinet  
4 manufacturers began to overlay imported board with  
5 either paper or vinyl overlays with either white or  
6 wood grain patterns.

7 At Canyon Creek we went through these same  
8 cycles.

9 In 2007 we experienced customer demand for  
10 what we call a real wood interior. They wanted it to  
11 be wood. At that time we changed to Chinese thin-  
12 faced plywood. Our plywood cabinet interior sales  
13 quickly grew from five percent of the cabinet boxes we  
14 produced to 35 percent -- a 700 percent increase.

15 No domestic plywood whatsoever was displaced  
16 by this change. Particle board was displaced and  
17 other imported plywood.

18 In the last six months we've heard a lot  
19 about how things have increased greatly and the import  
20 disruption. We experienced that primarily because of  
21 the turmoil that has happened in the marketplace which  
22 disrupted our supply chain.

23 Measured in square footage, about 60 percent  
24 of the plywood sheet stock we use is domestic and 40  
25 percent Chinese. We use both American and Chinese

1 plywood because we need to. They're two different  
2 products with distinct physical properties and  
3 different uses. We use Chinese plywood exclusively  
4 for our plywood cabinet interiors and some drawer  
5 parts. We use domestic for all exterior surfaces,  
6 primarily being doors, finished ends, finished backs,  
7 and cabinet interiors that need to match the exterior.

8 I brought some samples with me today to  
9 illustrate the physical differences in the  
10 manufacturing of cabinets, and that tall cabinet there  
11 came from our plant.

12 What customers typically want is for the  
13 cabinets to be functional and beautiful. To simplify  
14 my message, we can say that the Chinese plywood is  
15 functional and domestic plywood is beautiful. You can  
16 see the beauty in our doors. Our doors and other  
17 exterior parts once again are made 100 percent from  
18 domestic thick-faced veneer hardwood plywood and  
19 probably always will be.

20 We use U.S. manufactured thick-faced veneer  
21 for our door and drawer fronts, end panels and any  
22 application that requires an exposed surface for  
23 several reasons.

24 First, it is a superior product to Chinese  
25 plywood in the quality of the veneers and in the

1 overall appearance.

2 Second, because the finishing process  
3 includes sanding, staining and further work. This  
4 creates the fine finished look consumers demand.

5 The Chinese thin-faced veneer is not  
6 suitable for this type of finished process.

7 The American thick-faced veneer plywood is  
8 an excellent product as I cannot get this quality and  
9 performance from Chinese plywood.

10 By contrast, the interior of the cabinet is  
11 made with Chinese thin-faced birch plywood. The thin-  
12 faced veneer in plantation poplar core construction  
13 make this product ideal for applying a UV clear-coat,  
14 vinyl overlays, and other laminating processes.

15 For this component I need strength and a  
16 smooth surface.

17 Now I'm not quite sure I understand what the  
18 implication in this proceeding that was touched on  
19 this morning on softwood plywood. I'll leave that to  
20 the lawyers and to you. What I am sure of, though, is  
21 not all softwood plywood is structural as we heard  
22 this morning, slightly different. Certified is APA  
23 grade, PS1-09. What's called the industrial segment  
24 of the softwood plywood industry is softwood plywood  
25 that's used in cabinets, furniture, RV's and truck

1 beds. This is not certified as construction grade  
2 PS1-09 because it doesn't have to be. There's not  
3 going to be a building inspector coming through our  
4 factory to check for the stamp. It's going to be used  
5 for the non-construction applications I just  
6 mentioned.

7           From what I've heard in previous testimony,  
8 the Petitioners are hoping that having the duties on  
9 Chinese plywood will give them some relief and allow  
10 them to increase their sales, but they simply cannot  
11 make this product and cannot sell it.

12           After this petition was filed, I immediately  
13 scheduled meetings with Timber Products, Murphy  
14 Plywood and States, all vendors we use, to discuss the  
15 ramifications of their actions.

16           I looked each one of them in the eye and  
17 asked them what they could do to mitigate this. Each  
18 tried to reassure us that they could meet our needs  
19 and we tasked each to come back to us with a domestic  
20 solution. To date, none of them have been able to  
21 provide anything remotely usable for this application  
22 and no domestic manufacturer has ever presented a  
23 thin-faced domestically made product to us.

24           It came as a complete surprise to me this  
25 morning to hear that they claim that they can produce

1 this. We have no experience with that whatsoever in  
2 our supply chain.

3 We do not see nor believe there's a domestic  
4 solution suitable to the application we use imported  
5 plywood for. As I said earlier, if Chinese plywood is  
6 not available to us at a reasonable cost, we will find  
7 another solution and it will not include domestic  
8 plywood companies. I cannot state that strong enough.

9 We will do what it takes to compete. We are  
10 not asking for special considerations other than to  
11 have the advantage of a global economy and not be  
12 damaged by protectionist moves the U.S. Hardwood  
13 Plywood Manufacturers are asking for.

14 Thank you for your time. I look forward to  
15 answering any questions you may have.

16 MR. GRIMSON: Thank you, Bill. Our next  
17 witness is Peter Bendix.

18 MR. BENDIX: Good afternoon. My name is  
19 Peter Bendix and I'm the Vice President of Operations  
20 at StarMark Cabinetry, a division of Norcraft  
21 Companies. Collectively Norcraft Companies employs  
22 over 2,000 American workers and is the fourth largest  
23 cabinet manufacturer in the United States. We  
24 manufacture six different brands of cabinetry which  
25 are sold primarily through kitchen and bath dealers

1 across the entire U.S.. StarMark Cabinetry  
2 manufactures two of those brands in South Dakota.

3 I've been working in the kitchen cabinet  
4 industry for more than 30 years and over that time I  
5 have managed manufacturing operations at five  
6 different factories in various states across the U.S..

7 Today I would like to speak specifically  
8 about our product and the materials used in the  
9 manufacturing of our products at StarMark Cabinetry.

10 We have extremely exacting demands for the  
11 performance of our raw materials, specifically where  
12 and how they are used in our products. Our fancy  
13 panels are produced by domestic mills and our interior  
14 panels are generally import products.

15 Over the course of several years we have  
16 worked with both domestic and import suppliers to  
17 continually improve the grade and quality of the  
18 plywood products that we use in our cabinetry. In  
19 fact many of our products we have gone beyond what  
20 would be considered the standard grade of plywood as  
21 defined by the HPVA.

22 Those specifications include the thickness  
23 of the panel, the size of the panel, the materials  
24 used in the panel, the quality and construction of the  
25 cores, the calibration of the cores, and of course the

1 thickness and general pleasing esthetics of the  
2 veneers that our customers expect.

3 Every plywood panel that we purchase is from  
4 a mill that is able to produce to these  
5 specifications. We have found that different mills  
6 have different capabilities and strength. We work to  
7 align ourselves to capitalize on each of these  
8 suppliers' strengths.

9 As an ongoing process we continually test  
10 various plywood products from many manufactures,  
11 always working to improve the quality and performance  
12 of the raw materials that we use. In the end we  
13 always choose the best product for the purpose, not  
14 the least expensive. This is true for both domestic  
15 and import products and is not a price play for our  
16 company. Rather our motivation is focused on the  
17 performance of the plywood panel and ultimately the  
18 quality of our end product.

19 The mills we have selected and work with  
20 domestically each have individual strengths that have  
21 allowed them to be our preferred partner for the  
22 specific products that we purchase from them. We are  
23 not able to source Chinese plywood to substitute for  
24 these domestic plywood uses, nor are we able to source  
25 domestic plywood to replace our Chinese plywood. They

1 are clearly and simply different products.

2 I would also like to point out that  
3 competition does exist between these domestic mills.  
4 Domestic suppliers bring in various materials for us  
5 to test with hopes of gaining market share over other  
6 domestic suppliers. In my opinion this is healthy and  
7 necessary competition. Such competition is necessary  
8 for any segment of our economy to function effectively  
9 and it works to help keep everyone in check without  
10 cornering a market.

11 The same is certainly true for the kitchen  
12 cabinet industry where my company daily competes with  
13 several hundred other cabinet manufacturers.

14 I would now like to turn your attention to  
15 some samples that I have brought here for your review.

16 I believe the miniature cabinet samples will clearly  
17 highlight the difference of plywood panels that we use  
18 in our cabinetry.

19 Here I would like to point out several  
20 differences.

21 The first cabinet you are looking at with  
22 the finished ends, that is domestic panels using our  
23 product which we can fancy veneers. You will see they  
24 have an MDF cross-band under the thick base veneer.  
25 The MDF cross-band is necessary from a quality

1       standpoint to provide us with a smooth, consistent  
2       surface when applying those fancy veneers. This is a  
3       premium product that we are purchasing from our  
4       domestic partners for this specific use. We cannot  
5       obtain the same level of quality from a Chinese  
6       product.

7               The next sample you are looking at is an  
8       example of a cabinet using Chinese plywood, how it is  
9       used and how it is different.

10              Our Chinese panel has a birch face and back  
11       veneer and a hardwood poplar core. We use the Chinese  
12       product for the stability the extra plies provide in  
13       the panel.

14              Furthermore, the holding strength of the  
15       fasteners, primarily the screws and staples used in  
16       assembling our cabinet, is superior in the hardwood  
17       core of the Chinese panel as compared to the softwood  
18       core of a domestic panel.

19              Lastly, the birch veneer on the Chinese  
20       panel laminates very nicely for the interior of our  
21       cabinet, where our testing to date of domestic panels  
22       has resulted in unsuccessful performance. We use the  
23       Chinese panel because it is the best product available  
24       to us for this specific purpose.

25              I'd like to point out we also use an

1 Indonesian panel on the back of the cabinet because it  
2 is the only panel to date we have found with a veneer  
3 core, a solid veneer core versus MDF.

4 That product is not available either  
5 domestically or from Chinese mills. Testing of other  
6 product has either produced unacceptable results or  
7 they have not been available in a veneer core in a  
8 thin panel.

9 Again the point is we use different panels  
10 for different specific uses.

11 Another sample being passed around comes not  
12 from my company but from MidAmerica Cabinets. This  
13 set of panels demonstrates the superior performance of  
14 a Chinese panel over the domestic panel in the  
15 laminating process. You can clearly see the air  
16 bubbles and imperfections of the laminated domestic  
17 panel. Although this is not my specific product, we  
18 have seen similar results when testing domestic  
19 plywood for this use. We have also experienced  
20 problems with inconsistent cores and telegraphing.

21 Before leaving this topic I would like to  
22 reiterate, we routinely test many different plywood  
23 products from many different plywood manufacturers.  
24 Every one of these suppliers has the opportunity to  
25 win our business. They seldom win our business due to

1 pricing. It is typically due to their ability to  
2 produce a product that meets our requirements and our  
3 standards.

4 Another point that I feel is relevant in  
5 this review is our concern of the ability of our  
6 domestic suppliers to keep up with our growing  
7 business, let alone the overall growth in the economy.

8 Since January of this year we have  
9 repeatedly had our domestic suppliers either  
10 drastically extend their delivery times or even go off  
11 the market. I can provide you specific disruptions to  
12 our domestic order log since January of this year.

13 Lastly, today I wish to point out the  
14 pricing adjustments that our domestic suppliers have  
15 passed along to us. I cannot help but think that this  
16 is proof enough that little competition exists between  
17 domestic suppliers and the Chinese product because  
18 they are different products and the price increases  
19 had nothing to do with the duties of the Chinese  
20 product. Again, I can provide specific details, but  
21 in general the price adjustments were cited to cover  
22 increasing veneer costs, increase in glue costs and  
23 MDF pricing, and increases in energy costs.

24 I want to thank you for this opportunity to  
25 present to you what I feel are distinct differences

1 between the domestic and Chinese plywood products. I  
2 welcome any questions you may have for me at the  
3 conclusion of the panel.

4 MR. GRIMSON: Thank you, Peter.

5 Our next witness will be Carl Spencer.

6 MR. SPENCER: My name is Carl Spencer.  
7 Forty years ago this past April I got a job running a  
8 panel saw for Armstrong Cabinets in Ottawa, Kansas.  
9 While I was there I mastered every cabinet-making task  
10 on the shop floor and every business task in the  
11 office.

12 Since that time I've been recruited several  
13 times throughout the industry, managing plants for  
14 tiny Draper DBS, middle-sized Omega Cabinets, and  
15 MASCO, the very largest cabinet manufacturer at that  
16 time.

17 Eight years ago last week my wife and I took  
18 our shot at the great American dream and started  
19 Spencer Cabinetry from our life savings with just the  
20 two of us as its only employees.

21 Despite the recession we grew and steadily  
22 created jobs. We're very proud of our company and our  
23 15 employees. Over the last eight years we've  
24 maintained one of the fastest growth rates in North  
25 America, currently approaching \$2 million in sales.

1           The kitchen cabinet industry overall is  
2           currently almost a \$9 billion industry which has a  
3           very low barrier of entry and is therefore highly  
4           fragmented. Roughly one-third of the U.S. cabinet  
5           market is controlled by just seven companies including  
6           Norcraft. But 60 percent of the industry is made up  
7           of approximately 9,000 companies like mine, all under  
8           \$15 million a year. We are in fact the backbone of  
9           our industry, both in terms of aggregate revenues and  
10          aggregate jobs.

11          Small cabinet companies like mine struggle  
12          for existence every day. We can't afford attorneys to  
13          plead our case, let alone lobbyists. While we're  
14          awake we're either selling cabinets or are making them  
15          with our own hands, putting bread on the table of  
16          ourselves and our employees, the old fashioned way.  
17          This daily imperative is why this room is not  
18          overflowing with many more of my 60 percent of the  
19          industry whose predicament I must now represent.

20          Let me explain. Virtually all of us use  
21          both domestic and Chinese plywood just like the big  
22          boys and generally in the same way. For as long as  
23          I've been in the industry domestic hardwood plywood  
24          has been conventionally used as the primary wood. The  
25          veneers not only look better, there's less unsightly

1 telegraphing of the underlying veneers and virtually  
2 no voids or depressions.

3 In addition, the face veneers are  
4 substantially thicker, permitting appropriate sanding  
5 for the best finished surface on the completed  
6 cabinet. It's this great appearance on the outside  
7 that attracts customers.

8 Imported plywood has always been relegated  
9 for use as a secondary wood. This is not a recent  
10 phenomenon. It was true 40 years ago when I started  
11 on that panel saw and it remains true today.

12 Imports look adequate for structural  
13 interior parts where imperfections are not critical  
14 and that's about it. This prudent economy is what  
15 makes cabinets saleable to the general public.

16 No one in the cabinet industry would confuse  
17 these two types of materials just because they both  
18 come in 4x8 sheets and have a hardwood veneer face.  
19 Even the HPVA has noted these distinct quality  
20 differences between domestic and imported plywood in  
21 their arguments.

22 The key is fitness of use. You see, Chinese  
23 hardwood plywood was never a substitute for domestic  
24 hardwood plywood. Chinese plywood as a secondary wood  
25 is a substitute for particle board or thin panels from

1 other import sources. Pretending domestic plywood  
2 will now be purchased in place of Chinese plywood for  
3 secondary wood applications simply defies logic.

4 The capacity limits of domestic plywood  
5 companies will create shortages and drive the domestic  
6 prices up. Whose orders get filled first when there  
7 are shortages? Not the small guys like me.

8 AS the duty for Chinese plywood drives up  
9 all hardwood plywood prices, most of my small business  
10 peers will be forced to go to particle board  
11 interiors, wiping out our unique market  
12 differentiation and forcing us to compete head-on with  
13 the very biggest stock cabinet manufacturers who  
14 primarily use particle board and their overwhelming  
15 economies of scale.

16 Domestic plywood manufacturers will not get  
17 the additional business they hope for. The American  
18 consumer will only be offered a choice between  
19 cabinets with lower quality and less water-resistant  
20 material or cabinets too expensive to buy.

21 The cabinet industry as a whole will be  
22 driven towards consolidation, wiping out a high  
23 percentage of small cabinet shops like mine.

24 Remember us? We're 60 percent of the U.S.  
25 cabinet production. We're 60 percent of the U.S.

1 cabinet jobs. And we're more than 60 percent of the  
2 innovation and job creation.

3 More cabinet jobs are at risk of  
4 disappearing than plywood jobs that could possibly be  
5 created.

6 Please, please remember us when you're  
7 making your decision. After all, it's the domestic  
8 cabinet and furniture companies that buy all that  
9 hardwood plywood, especially the smaller cabinet  
10 manufacturers. If we're priced out of business, who's  
11 going to buy all that American made hardwood plywood  
12 even for primary wood?

13 It gets worse. The new duties won't punish  
14 the Chinese plywood factories one iota. They'll  
15 merely shift their output away from the American  
16 cabinet companies towards rapidly expanding cabinet  
17 companies in China, Canada, and Mexico among others.  
18 From our point of view, our own government's actions  
19 amount to a de facto stimulus not for Americans, but  
20 instead for Chinese, Canadian and Mexican cabinet  
21 manufacturer, all of whom can still buy plywood from  
22 China at the true world price.

23 In the end it's the American cabinet  
24 companies that will be punished, especially the small  
25 ones. And American jobs that will be lost. From

1 where I stand in Washington State, the economy's  
2 starting to come back. More houses are being built  
3 and our sales are already up by more than 40 percent  
4 over last year. We've hired more people and we're  
5 currently continuing to hire. As our sales volume  
6 increases we're buying significantly more of both  
7 domestic and Chinese hardwood plywood already.

8 Most of the 60 percent of the U.S. cabinet  
9 industry I represent are also growing stronger and  
10 also buying more of both types of plywood. Why would  
11 anybody in this room want to artificially interfere  
12 with this process when we'll all benefit by letting  
13 nature take her course?

14 Thank you for your time.

15 MR. GRIMSON: Thank you very much, Carl.

16 Now we'll turn the microphone over to Mr.  
17 Neeley.

18 MR. NEELEY: Hi. I'm Jeff Neeley from  
19 Barnes, Richardson Colburn on behalf of the China  
20 National Forest Products Industry Association and its  
21 members.

22 We're going to have two witnesses today, Mr.  
23 Shengfu Wu from the association who is going to talk  
24 in general about threat issues and about the industry,  
25 and then Mr. Sam Du who is from the Dehua company

1 which is probably the top quality producer of plywood  
2 in China.

3 Mr. Wu?

4 MR. WU: Good afternoon. My name is Wu  
5 Shengfu, the Director of Marketing Department for the  
6 China National Forest Products Industry Association.

7 I would like to talk to the Commission today  
8 about the hardwood plywood industry in China and  
9 explain why it does not pose a threat to the U.S.  
10 hardwood plywood industry.

11 Of course we agree that there is demand for  
12 the thin face veneer and that the U.S. industry will  
13 not be able to make those veneers no matter what  
14 happens in this case.

15 Our association has been working hard to  
16 make sure the Commission has a complete record in the  
17 industry of China just as we did in the Section 332  
18 investigation in 2007. Members of our association  
19 provided 80 questionnaire responses, of which 76 were  
20 from the producing companies and 4 were from companies  
21 that no longer produce.

22 With the other Chinese responses be sure  
23 that these accounts for the substantial majority of  
24 product in China, for goods exported to the U.S.. The  
25 Commission, therefore, should have a complete record

1 of industry in China.

2 The Chinese hardwood plywood industry is  
3 increasingly focused on the domestic market where the  
4 demand has been strong and growing. This has been  
5 particularly true in 2012 and 2013. The building  
6 industry in China has been booming and strong growth  
7 is expected to continue for the foreseeable future as  
8 millions of people achieve middle class lifestyles.

9 The data that has been submitted shows that  
10 capacity utilization in China is and will remain high.

11 While exports to the United States have  
12 dropped in 2013 due to the high preliminary dumping  
13 and CVD margins, for those companies who cooperated  
14 with Commerce and were not selected individually, the  
15 Chinese home market demand has been increased as other  
16 export markets. There is not an industry that has  
17 built or keeps a lot of excess capacity. Capacity is  
18 in line with demand in the market.

19 I think that the Commission knows that the  
20 capacity in China for plywood is almost all for thin-  
21 faced veneer product. That is what we sell in China,  
22 in third countries and in the United States. That is  
23 why China specializes in because it is a labor  
24 intensive product. Only lower labor cost countries  
25 such as China, Vietnam, Indonesia, Malaysia and other

1 similar countries can effectively make this thin-faced  
2 veneer product.

3 I know that the Petitioners here are saying  
4 that there are a huge number of plywood mills in  
5 China, but this is not true when we examine the  
6 companies that can export to the U.S..

7 For any sophisticated market like the U.S.  
8 or Europe, the exports need to be qualified by the  
9 buyer and the physical quality needs to be strong and  
10 good.

11 Another barrier to entry into the U.S.  
12 market is being qualified under Lacey Act as well as  
13 under the California Air Resources Board, CARB, for  
14 California and other U.S. markets.

15 U.S. buyers usually stay with the same  
16 reliable suppliers who have a track record of  
17 compliance rather than taking risks.

18 Chinese producers have no need to focus only  
19 on the markets in the U.S. or other developed  
20 countries. plywood demand is driven mainly by the  
21 many end uses inside China for the products, including  
22 uses in kitchen cabinets, engineered floor, concrete  
23 forms, container floors, furniture and packaging.  
24 Housing starts continue to be strong in China and with  
25 an increased demand for products using plywood.

1           It is important that in looking at the  
2           statistics to examine only hardwood plywood and not  
3           double counting products. For example, in China the  
4           production of veneers is counted once as a production  
5           of plywood, and then again as part of the production  
6           of the finished plywood. Thus data problems are  
7           serious for Chinese and also for the U.S. import  
8           statistics.

9           I think that the Commission understands this  
10          problem with U.S. statistics and that is why it relied  
11          on importers' questionnaires in the recent multi-  
12          layered wood flooring case. If the official  
13          statistics were not good enough for the flooring case,  
14          I cannot see how they could be good enough for the  
15          plywood case.

16          I would like to address the issue of  
17          capacity as reported in our members' responses. You  
18          can see that capacity is being used at a high rate in  
19          China and is in line with demand. The Commerce  
20          Department found that there are no subsidies in this  
21          industry for any of the companies actually examined  
22          and there is no ability or incentive for these private  
23          companies to expand without a market being available.

24          The plywood prices in Europe and even in  
25          China now are higher than in the U.S., so the

1 incentives to sell more in the U.S. now are much less  
2 than the incentives to expand the sales into the  
3 Chinese market or into Europe.

4 Finally, I should mention that the exchange  
5 rate and the labor costs are making Chinese products  
6 less competitive every day and I cannot see that  
7 changing. In the last few years RMB has increased in  
8 value against the dollar by over 20 percent and the  
9 labor costs are increasing rapidly by about the same  
10 amount in about every area in China. In addition to  
11 other issues that I've mentioned, this will make the  
12 home market of China even more attractive in the  
13 future.

14 For these reasons I ask the Commission to  
15 conclude that China does not pose a threat to the U.S.  
16 industry producing hardwood plywood.

17 Thank you. I will be glad to answer any  
18 questions.

19 MR. GRIMSON: We'll now turn to Mr. Du.

20 MR. DU: Good afternoon. My name is Sam Du,  
21 Export Manager for Dehua TB New Decoration Material  
22 Co. Dehua has been producing plywood since 1993 and  
23 started exporting to the United States around 2002.  
24 Dehua is one of the largest plywood producers in China  
25 and has a high market share in China. Dehua considers

1       itself to be the highest quality plywood producer in  
2       China because we use higher quality veneers, including  
3       cherry, oak and maple face. Most Chinese producers  
4       use birch for the face veneer.

5               However, our company is a very small part, 1  
6       or 2 percent of Chinese exports to the United States  
7       and other Chinese producers are focused on the thinner  
8       faced veneer products that are not competed with U.S.  
9       producers. None of Dehua's plywood is over .06  
10      millimeter in face veneer thickness which is what the  
11      U.S. industry produces. To my knowledge, no U.S.  
12      producer makes plywood with a face veneer under .4  
13      millimeter.

14             I wanted to talk today about why we are  
15      trading in the thin veneers and why we cannot compete  
16      for the thick veneers where the U.S. and Canadian  
17      produces laminate.

18             We have looked at making thicker face  
19      veneers over .6 millimeter, but have never produced  
20      any. We concluded that it was simply not cost  
21      efficient to produce such products in China.

22             The production of the thick veneers is more  
23      efficient with machinery which is what U.S. producers  
24      do.

25             In addition, to produce veneers above .6

1 millimeter in China would cost more than in the United  
2 States because we do not have suitable raw material in  
3 China and it would not be cost-effective to peel  
4 veneers into those thicknesses from the small  
5 plantation lots available to Chinese producers.

6 In addition, we have longer lead times for  
7 delivery to our customers and would face an 8 percent  
8 duty on non-birch face veneers together with ocean  
9 freight costs. On the other hand, it is not efficient  
10 for U.S. producers to produce the thinner veneers  
11 under .5 millimeter which their machines cannot handle  
12 and given the labor intensive production process and  
13 the resulting higher labor costs.

14 For the future we will use our resources to  
15 increase sales in the home market and other markets  
16 for our existing products rather than attempting to  
17 enter market for thick-faced veneers where we do not  
18 have a cost advantage. We expect that the same is  
19 also true of the U.S. industry which is why they do  
20 not sell plywood which has thinner face veneers, where  
21 they do not have a competitive advantage.

22 I agree with the testimony you heard earlier  
23 regarding differences in the production process in  
24 China and in the United States. The production  
25 machinery and the technology in China is less

1 automated than what is used in the United States and  
2 is designed to be used with the small lots available  
3 in China.

4 We also do air drying in China while they  
5 use dry machines in the United States which consume  
6 electricity.

7 U.S. production has better equipment than  
8 China producers and those machines are significantly  
9 more expensive than the machinery used by Chinese  
10 producers.

11 In China the production process is also more  
12 labor intensive as you have already heard.

13 The differences in available materials,  
14 costs and the production process makes the Chinese  
15 advantage different from the U.S. advantage that we  
16 will not change any time soon.

17 Dehua has analyzed making thicker veneers  
18 but has determined that it does not have a cost  
19 advantage in the thick product. If Dehua, which is  
20 the highest quality producer in China, has not been  
21 able to expand beyond its current market segment for  
22 thin face veneer plywood, it is highly unlikely that  
23 any other Chinese producers could do so.

24 I would be happy to answer any questions you  
25 may have. Thank you.

1 MR. NEELEY: Thank you.

2 CHAIRMAN WILLIAMSON: Thank you very much.

3 WE will now have our next congressional  
4 witness.

5 THE CLERK: The Honorable Ron Wyden, U.S.  
6 Senator, Oregon.

7 CHAIRMAN WILLIAMSON: Welcome Senator Wyden.  
8 You may begin when you're ready.

9 SENATOR WYDEN: Thank you all for your  
10 courtesy. I understand that you've had a long day.  
11 Let me spare you the filibusters this afternoon and  
12 just touch on a couple of issues that are particularly  
13 important from our vantage point in the northwest, and  
14 we want to start by expressing our appreciation to  
15 Chairman Williamson and the distinguished members of  
16 the Commission for the opportunity to be here today.

17 Suffice it to say that today's hearing is of  
18 enormous importance to American manufacturing and  
19 American workers, especially in my home state of  
20 Oregon.

21 As you may be aware, I serve as the chair of  
22 the Senate Finance Subcommittee on International  
23 Trade, have consistently supported efforts to grow the  
24 global economy, create opportunities for our workers  
25 and others, and I will tell you it feels a little bit

1 different to be on this side of the dais at this point  
2 having chaired a number of hearings on trade in the  
3 Senate, but I'm certainly happy to be here with all of  
4 you because it seems to me you play a crucial role in  
5 upholding the basic proposition of a rules-based  
6 trading system.

7           These efforts are in effect what allow our  
8 manufacturers, those who innovate, those who provide  
9 services a chance to be successful in the global  
10 marketplace.

11           I also want to begin by expressing my  
12 appreciation to the Commission for your work in  
13 examining the impact of unfairly traded imports of  
14 hardwood plywood from China and the impact that those  
15 inequitable practices have on American businesses and  
16 the workers on which they rely.

17           This independent Commission rightly  
18 determined, in my view, in your preliminary report  
19 that U.S. manufacturing was in fact injured, and you  
20 made that judgment as a result of import of hardwood  
21 plywood from China in which the Department of Commerce  
22 determined are illegally dumped and illegally  
23 subsidized.

24           Now this is not the first group of  
25 manufacturers and workers who have been harmed by

1 China's unfair trade practices. At the Commission you  
2 all are well aware of them, and you're aware of them  
3 whether it's related to steel or solar panels or to  
4 other sectors.

5 China is implementing an economic model that  
6 in my view is at odds with its commitment to world  
7 trading partners and I would submit it is at odds with  
8 what they pledged when I and others in the United  
9 States Congress supported their effort to be part of  
10 the World Trade Organization.

11 In effect the commitments that they made as  
12 a part of that effort to be included in the WTO were  
13 commitments to a market economics, commitments to  
14 global growth, and in effect the kinds of practices  
15 that I'm outlining today and that have impacted my  
16 constituents in such a negative way, are inconsistent  
17 in my view with what China pledged more than a decade  
18 ago when I and others listened, we heard, they said  
19 they were going to be committed to market oriented  
20 economics, we supported their effort to be part of the  
21 World Trade Organization, and what has clobbered our  
22 wood product sector in Oregon, in my view, is  
23 inconsistent with those pledges that were given more  
24 than a decade ago.

25 The results of China's unfair trade policies

1 in my vie cry out for a remedy. Not just for the sake  
2 of American manufacturing, but to stand up for the  
3 global trade rules that have in effect propelled the  
4 post-war global recovery and enabled our country to  
5 enjoy its status as the world's biggest economy.

6 When China's suppliers dump unfairly traded  
7 hardwood plywood into the American market, it is a  
8 direct affront to American workers and to the  
9 proposition that I focused on today, the value of a  
10 market oriented economy.

11 Left unchecked, these illegal trade  
12 practices undermine economic growth, struggling Oregon  
13 communities, and encourage more of these unacceptable  
14 trade practices by China and others who in effect are  
15 going to say there may be world trade rules but we're  
16 pretty much going to play by our own rules. I think  
17 that's essentially what is at issue here.

18 In so many cases small communities like  
19 those across Oregon that rely on manufacturing are  
20 really up against the wall in terms of their very  
21 survival and a portion of that predicament is in my  
22 view unquestionably due to these unfair trade  
23 practices.

24 The last few years has seen a rebounding of  
25 the U.S. economy that ought to provide some measure of

1 relief to manufacturers struggling to keep the doors  
2 open, yet unfortunately even though the U.S. hardwood  
3 plywood market has grown in recent years, a number of  
4 our manufacturers have not been able to reap the  
5 fruits of that kind of economic growth, .

6 U.S. manufacturers of hardwood plywood are  
7 operating at less than half of their production  
8 capacity. It appears to me that China's subsidies and  
9 the dumping practices employed by Chinese suppliers  
10 enable these suppliers to unfairly capture market  
11 share that otherwise would be claimed by American  
12 producers. The growing tide of Chinese imports have  
13 the potential to sink the boat of the American  
14 hardwood plywood industry and they have done  
15 considerable damage already.

16 Our country is, in my view, the greatest  
17 manufacturing engine in the world. This is a mantle  
18 that in my view was earned by having a top flight work  
19 force and by especially promoting innovation and  
20 measures that increase our productivity in the private  
21 sector.

22 Our nation cannot allow its capacity to  
23 manufacture goods domestically to continue to be  
24 eroded by unfair trade practices from China or  
25 elsewhere. If those of us that are elected and tasked

1 to ensure that unfair trade is checked and is  
2 remedied, I think we can ensure that our companies get  
3 a fair shake and are successful.

4 If we fail to act it will come at the cost  
5 of American companies, American jobs, and American  
6 communities.

7 Let me just close by saying that I hope that  
8 once again the Commission will do what it has a  
9 tradition of doing very, very well, and that is to in  
10 effect, after listening to all sides, look at the  
11 facts and the circumstances in this case, apply the  
12 nation's trade laws accordingly, and in my view an  
13 analysis based on the Commission's longstanding  
14 tradition will as I have tried to assert this  
15 afternoon, will show that our producers have been  
16 treated unfairly and this deserves a remedy.

17 Thank you all very much.

18 My understanding is you're going to spare me  
19 a grilling and questions. I'm appreciative of that  
20 given the Senate schedule, but I just appreciate the  
21 courtesy to be here.

22 CHAIRMAN WILLIAMSON: Unless there are  
23 pressing questions we'll let you get back to the Hill,  
24 but we want to thank you very much for coming to the  
25 Commission today and you're always welcome here.

1           SENATOR WYDEN: Very good. My thanks to all  
2 of you and I appreciate your service.

3           CHAIRMAN WILLIAMSON: Thank you.

4           I want to thank this panel all for coming,  
5 especially some of you have come a very long way.  
6 This afternoon we're going to begin our questioning  
7 with Commissioner Broadbent.

8           COMMISSIONER BROADBENT: Thank you very  
9 much. I appreciated all the testimony we had this  
10 afternoon.

11           I wonder if, and this may be for one of our  
12 Chinese guests. Does the Chinese industry use  
13 radically different types of manufacturing process  
14 than the U.S. industry to manufacture the subject  
15 imports?

16           MR. WU: Yes. Thank you for the Commission  
17 questions. I can say that process in China, the  
18 facility in China, technology in China for the plywood  
19 industry is quite different from the American  
20 processing here.

21           In China the raw material in China is mainly  
22 we focus only on the plantation forest as we hear  
23 before. The diameter for the logs around about 27  
24 millimeter average.

25           Here the raw material is different.

1           Secondly the material in China is focused on  
2     designing for the small lots processing which is  
3     different for the traditional logs processing which is  
4     being here.

5           Also the technology. For the small lots  
6     when you can peel efficiently, we can not use the  
7     conventional peeling lathes and processing  
8     technologies. We have to focus on the small lots  
9     process.

10           For cost effective, we have, as we note  
11     already here, we use air drying for our process which  
12     saves about 20-27 percent of energy of plywood  
13     production.

14           Also in China the laborers are relatively  
15     cheap and well organized and managed. We can use  
16     labor replace the machinery for the thin veneers we  
17     can handle which machine cannot do it.

18           COMMISSIONER BROADBENT: Thank you very  
19     much.

20           When you say it's plantation wood, it's this  
21     birch wood, where is it mostly grown?

22           MR. WU: The plantation in China is growing  
23     and booming in China. As data show in the FAO, China  
24     is the biggest plantation in the world. Maybe you  
25     heard the word about agriculture forest which is

1 leading and doing in China.

2 COMMISSIONER BROADBENT: Okay.

3 MR. GRIMSON: Commissioner Broadbent,  
4 perhaps one of our witnesses might have some  
5 additional views on that.

6 Shawn?

7 MR. DOUGHERTY: In provinces such as Linye,  
8 Pizhou, you'll find plantations of poplar all over.  
9 In southern areas, Guangxi, you'll find eucalyptus  
10 plantations." It's important to distinguish though,  
11 the meaning of a plantation.

12 Oftentimes if you look at New Zealand or  
13 Australia or other parts of the world you'll see  
14 continuous land and it's more fragmented in China. So  
15 in my testimony I also said farmlands. So you will  
16 see poplar trees that have growth cycles of seven to  
17 ten years that can actually be put out in rice fields,  
18 spaced apart well so that the trees can grow straight  
19 and fast.

20 So I just wanted to kind of clarify the  
21 difference between what we view plantation and also  
22 with farmland. It's different than you would see in  
23 other parts of the world.

24 COMMISSIONER BROADBENT: Thank you.

25 Mr. Weaver, thank you very much for your

1 testimony. Can you describe the exact product  
2 specifications that you discussed with the domestic  
3 producers in terms of what you would need if you were  
4 not going to be able to get the imports.

5 MR. WEAVER: Yes. This is Bill Weaver.

6 We had a meeting with them, and they know us  
7 well. They know our production well. So it wasn't  
8 like we were presenting something that was totally new  
9 to them. We gave them samples of what we use. They  
10 knew the application.

11 We gave them in essence a blank sheet to  
12 come back to us with what can you produce, whether you  
13 have to produce something different than what you do  
14 today, but what can you produce that will work in this  
15 interior, not needing a thick face, not needing the  
16 finer veneers that we use on the exterior of the  
17 cabinet. We could allow a certain amount of defect  
18 inside, in the face veneers, et cetera. None of them  
19 came back to us with, some of them didn't even come  
20 back to us, and some did come back to us, but in  
21 essence with their hands up.

22 But we gave them license to figure out what  
23 they could do. We did not try to put them in a box  
24 and say come back to us. Here's the application.  
25 Here's the specs that we use now. What can you do?

1                   COMMISSIONER BROADBENT: It seems strange  
2 since you're such a great customer of theirs on the  
3 hardwood side and the more up end product, they must  
4 understand your manufacturing issues.

5                   MR. WEAVER: Yes, they understand our  
6 manufacturing, and we were surprised also. We really  
7 fully expected them to come back with some suggestions  
8 that were at least within a workable range, and that  
9 did not happen.

10                  MR. GRIMSON: Commissioner, I wonder if  
11 Peter Bendix might jump in because I know, Peter, you  
12 were talking about some of your testing, periodic and  
13 basically constant testing of new product offerings.

14                  MR. BENDIX: Yes, I'd be happy to add to  
15 that.

16                  As Bill mentioned, we were also surprised  
17 actually by the action taken as Bill mentioned in his  
18 testimony. Certainly speaking for ourselves, but we  
19 believe the industry, as Bill mentioned there really  
20 is no confusion that these are different products and  
21 they're used differently.

22                  However, we do engage in an active testing  
23 process for different materials. We test domestic  
24 products against other domestic products; import  
25 products against other import products; as well as

1 open up the door for an opportunity for domestic  
2 suppliers to offset that import business, and we have  
3 tested that as recently as 2012. We tested that  
4 extensively in 2009. But in 2012 we had three more  
5 efforts that produced unacceptable results to use a  
6 domestic product to replace our import panel that you  
7 saw in these samples.

8 COMMISSIONER BROADBENT: What's  
9 unacceptable? What did you define as unacceptable?

10 MR. BENDIX: There's a fundamental  
11 difference and I believe we've been talking about it  
12 somewhat, but I think it's a key point in the  
13 differentiation in the product.

14 One is the hardwood core we certainly feel  
15 is superior with the hardwood poplar core. But as you  
16 also saw in the PowerPoint, with the people laying up  
17 these cores, they are able manually to fill these core  
18 voids and openings with wood, wood patches, and  
19 fillers. What that allows them to do is have a nice  
20 sealed core without openings and gaps.

21 Then the second part, equally as important,  
22 they calibrate these cores and sand them to a specific  
23 thickness. That does two things for us. One, it  
24 gives us a nice even panel for laminating which would  
25 be the interior that you've seen in our cabinet which

1 is a paper laminate. An uncalibrated core which isn't  
2 as consistent will result in core voids or the paper  
3 won't laminate down, if you will, in depressions and  
4 voids in the panel. That's why the calibrated core is  
5 key as a starting point for that import panel.

6 Then of course the veneer we use, the birch  
7 veneer that you're seeing there laminates very, very  
8 nicely for us and doesn't -- it laminates nice and  
9 smooth without telegraphing of wood texture and so  
10 forth.

11 So for all those reasons it continually  
12 provides superior results for that interior laminate  
13 purpose of the cabinet.

14 COMMISSIONER BROADBENT: And you're really  
15 telling us that the domestics are refusing to do this  
16 product and this quality?

17 MR. BENDIX: Again, I go back to the  
18 difference where the domestic testing has always  
19 failed at least us has been the inconsistent cores and  
20 the voids. What happens is we're not able to get that  
21 laminate paper, which is very thin, it doesn't  
22 consistently press or laminate on the panel. There's  
23 always voids and pockets. Then when we cut the 4x8 or  
24 4x6 sheets into parts, we have loose paper and  
25 therefore reject parts.

1                   COMMISSIONER BROADBENT: Why don't the  
2 domestics use the hardwood as the core?

3                   MR. BENDIX: They primarily have not been  
4 available to us. We've heard this morning that they  
5 are available. I think if they are, they're a  
6 specialty or limited availability. They certainly  
7 have not been, we haven't been aware of that  
8 availability.

9                   Number two is that calibrated core, number  
10 two, is just an essential key point to this. So  
11 regardless of what it's made and what you put over it,  
12 the fact that those cores are filled with wood patches  
13 and fillers so there are no gaps, and then calibrated,  
14 is really a key difference in the panels that we test.

15                  COMMISSIONER BROADBENT: And that's a labor  
16 intensive process.

17                  MR. BENDIX: Very, very labor intensive.

18                  COMMISSIONER BROADBENT: Thank you.

19                  MR. DOUGHERTY: Excuse me, this is Shawn  
20 Dougherty with Northwest Hardwoods.

21                  I think if you were to compare the wood  
22 basket, you see a lot of the Petitioners' mills are  
23 located in softwood growing regions which have  
24 different characteristics and different attributes.  
25 In fact the only thing remotely similar that I've

1 seen, it doesn't mean there aren't others, but is in  
2 Boardman, Oregon. Great poplar plantations. Large  
3 extensive, continuous lands.

4 I understand that one of the Petitioners is  
5 starting to try to work with that resource and  
6 incorporate it, so that's encouraging. It's a  
7 sustainable species, it's renewable, it's great.

8 But the real reason is the availability of  
9 the resources within the regions that these mills are  
10 located.

11 COMMISSIONER BROADBENT: Thank you.

12 CHAIRMAN WILLIAMSON: I do want to express  
13 appreciation to the witnesses.

14 Just continuing on that theme, cabinets that  
15 were made like 30 or 40 years ago, before we had any  
16 imports, we were using a different technology or  
17 different process? I'm just curious, when you say  
18 using the paper thin veneer. Or just paper on the  
19 insides of some of these cabinets.

20 MR. SPENCER: Let me take a shot at it from  
21 my perspective because I was on a panel saw 40 years  
22 ago right now.

23 CHAIRMAN WILLIAMSON: That's where I got my  
24 first cabinets.

25 MR. SPENCER: Specifically kitchen cabinets,

1 we were using imports then. We were using primarily  
2 luan and meranti and imports like that from Indonesia.

3 Or we were using particle board. Generally speaking  
4 where we needed the screw holding we would use the  
5 plywood and where we didn't we'd use the particle  
6 board.

7 Shelf pinholes, for example, collapse if you  
8 don't have the right strength in there.

9 What happened was as better laminations were  
10 developed the appearance became more and more  
11 important to our customer, the consumer and they were  
12 looking for better looking stuff, and that's when the  
13 papers came out and started to be laminated onto both  
14 particle board and plywood.

15 The problem is when you go back to particle  
16 board you go back to your shelf pins collapse on you,  
17 or might, especially since the little five millimeter  
18 shelf pin hole are also used nowadays for mounting all  
19 the accessories.

20 If that blows out on you you have a big  
21 crater on the inside of the cabinet, a very unhappy  
22 customer. Staples can pull out. Things can fall off  
23 the wall, although that's not always the fault of the  
24 cabinet maker.

25 So when Chinese plywood became available we

1 essentially abandoned both the luan, we abandoned the  
2 particle board and went to the Chinese plywood which  
3 is not a new thing. This didn't happen in the last  
4 two or three years. My personal experience goes back  
5 into the 1990s with Chinese plywood, the exact same  
6 stuff we're using today in the exact same application.

7 What happens next? That's the question.

8 MR. WEAVER: I'd like to add to that, if I  
9 could. This is Bill Weaver.

10 You mentioned 40 years ago. Forty years ago  
11 there were three significant players that don't exist  
12 in the business today that were making cabinets.

13 Excel out of Lakewood, New Jersey; you had, I'm sorry,  
14 the name escapes me now, out of Red Wing, Minnesota;  
15 and then Longbell out of Longview, Washington. All  
16 three of those at the time were using luan interiors.

17 So even back 40 years ago when you look at who the  
18 majors were, they were not using domestic plywood.  
19 There were a few people who were using some domestic  
20 plywood, usually on a smaller scale, and they  
21 generally used fir, and it was fir uncovered.  
22 Laminating fir back then was not a big deal.

23 When fir started began to be laminated it  
24 worked for a while, but the consumers didn't like the  
25 fact that the hard and the soft grain telegraphed

1 through the laminate. That's why the imports from  
2 Indonesia and other countries really became the  
3 standard through that period of time.

4 But in my 40 years the domestic hardwood  
5 plywood has never been a significant player in cabinet  
6 interiors.

7 CHAIRMAN WILLIAMSON: Okay.

8 MR. BENDIX: Peter Bendix here again. If I  
9 can just add to that.

10 In our case, not going back 40 years ago,  
11 but prior to 2009 we were using Indonesian plywood  
12 panels where we're using the Chinese panels today. We  
13 never have used a domestic panel for that product.

14 We switched from Indonesian to Chinese panel  
15 because of the superior construction and consistency  
16 of that panel. But it never had offset domestic  
17 orders.

18 CHAIRMAN WILLIAMSON: Thank you.

19 Let's switch to another subject. Does  
20 anyone believe any domestic producer should be  
21 excluded from the domestic industry as a related  
22 party?

23 If so, please provide analysis in your post-  
24 hearing brief.

25 MR. GRIMSON: We will do that, Commissioner.

1                   CHAIRMAN WILLIAMSON: Thank you.

2                   Given the increase in demand over the period  
3 of investigation, especially if we use the import data  
4 you advocate, why wasn't the domestic industry's  
5 performance better? Especially as we came out of the  
6 deep recession?

7                   MR. GRIMSON: I think if you remember back  
8 to the first slide that we showed, the answer is that  
9 it was better. It was getting better throughout the  
10 period, way before the petition was filed. The  
11 selling prices were going up, profits were  
12 fluctuating, but by the time that, from 2010 to 2012  
13 you did see an improvement.

14                  Tom, would you like to chime in on that?

15                  MR. ROGERS: Just to add to that, I think we  
16 also heard about the macro economic factors going on  
17 in this country and we were coming out of a tremendous  
18 recession, are still in it, at the beginning of the  
19 period. Housing starts were down, everything was down  
20 in the wood products industry. Overall, was down.  
21 Now as the economy's recovering and those commercial  
22 activity is rising and housing starts are going up  
23 we're seeing a rebound in the performance of the  
24 industry.

25                  Nevertheless, despite the recession, this

1 domestic industry still generated profits throughout  
2 the period and I think that's remarkable.

3 MR. WEAVER: This is Bill Weaver. I'd like  
4 to also add to that.

5 A lot of the statistics we heard were fit  
6 into years. Unfortunately we don't operate in years,  
7 we operate in continuous time.

8 The timing of the housing recovery, the  
9 first quarter of calendar 2012 was actually probably  
10 one of the worst quarters in the housing industry  
11 throughout the recession. We hear a lot of numbers  
12 and depending on where you get those sources from on  
13 when it began to recover, but it really began to  
14 recover about the middle of last year.

15 If you look at the ramp up, if you start  
16 measuring from about the middle of last year and look  
17 at that ramp up in the industry, we all came out of  
18 the doldrums, we all were at kind of status quo  
19 through that whole, and several years previous to  
20 that, and most all of us began to experience that  
21 pickup then.

22 That is the exact same time period that the  
23 plywood companies also began to increase and pick up.

24 And if you look at their utilization against our  
25 utilization across industries, they're about the same.

1       They sunk to the same levels, they've risen to about  
2       the same levels. So really it is that wind at  
3       everybody's back is floating everybody to about the  
4       same place. Not outside competitive factors. It's  
5       simply the economy got that much better and the  
6       expectation that that would double your bottom line,  
7       as was shown, was because you wind up getting a better  
8       utilization on your fixed overheads, et cetera, which  
9       drives your profit line higher, The more you fill  
10      your factory, the better it is.

11               CHAIRMAN WILLIAMSON: Is the information in  
12      the pie chart on page 2-9, it shows how the wood is  
13      used, is that still accurate? If not, can you provide  
14      an update?

15               MR. GRIMSON: That's our projection of the  
16      various end uses?

17               CHAIRMAN WILLIAMSON: Right.

18               MR. GRIMSON: Okay.

19               CHAIRMAN WILLIAMSON: Figure 2-1.

20               MR. GRIMSON: We provided that back in the  
21      preliminary phase based on talking with the large  
22      group that we had and we don't hear or see anything  
23      that really changes it very much.

24               I would say that in one respect we differ  
25      with the projection of the Petitioners, and it relates

1 to the sector of the cabinet industry. Our folks when  
2 we asked them what portion of end use of the cabinet  
3 industry, we said about one-third, approximately that.

4 The Petitioners said it's close to 50 percent. Maybe  
5 it's somewhere in between those two numbers.

6 CHAIRMAN WILLIAMSON: Given all those other  
7 uses, almost everything you've talked about has been  
8 about cabinetry today. Do you want to give some  
9 comments on the other?

10 MR. GRIMSON: Sure. And I think that one  
11 important one to discuss is the market for  
12 underlayment.

13 As you heard our witnesses Just talking  
14 about that the thin panel that the Indonesian product  
15 has been in the market for 40 years. That has been  
16 the product that people buy when they're going to tack  
17 down flooring on top of it. They don't care about how  
18 the product looks. They don't care about it having  
19 thick faced veneer. They're going to buy thin product  
20 that meets a certain panel thickness.

21 So in that segment the Chinese and the  
22 import market has always served that segment and it's  
23 significant.

24 In our slide regarding the differences in  
25 the panel thicknesses, the Petitioners tried to kind

1 of group the two, the middle two panel thickness  
2 ranges together, but if you really look at the thin  
3 panel market which is below 6.5 millimeters, you have  
4 two things in there. You have quarter inch panels --  
5 that's what the Petitioners sell; and you have  
6 everything below that which starts to pick up the  
7 underlayment. Those are not the same.

8 So stacking those two bars on top of each  
9 other and saying this is competition in the same  
10 market is not really, it doesn't really capture the  
11 reality. We designed Product 6 to capture  
12 underlayment. If you look at the volumes that the  
13 domestic industry reported in volume 6, I think you'll  
14 see exactly what we're saying.

15 CHAIRMAN WILLIAMSON: Okay.

16 MR. GRIMSON: Perhaps some of our industry  
17 folks would like to talk about the underlayment market  
18 a little bit more.

19 MR. SIMON: This is Greg Simon.

20 We've been importing plywood for  
21 approximately 30 years. We've imported large volumes  
22 of what we would call quarter inch plywood that would  
23 be used in an underlayment application. It has served  
24 the needs of the U.S. market from various countries  
25 around the world during that period and it will

1 continue to be sourced from another third country  
2 because the domestic manufacturers of hardwood plywood  
3 in this petition do not make this product in any  
4 volume sufficient to support this marketplace.

5 CHAIRMAN WILLIAMSON: My time has expired.  
6 I might come back to this.

7 Thank you.

8 Commissioner Aranoff?

9 MR. SIMON: May I add one more thing? I  
10 apologize.

11 Predominantly what would be supplied from  
12 the U.S. market in underlayment would be softwood  
13 plywood which again is not part of this investigation.

14 CHAIRMAN WILLIAMSON: Is it used for  
15 underlayment though?

16 MR. SIMON: Softwoods are used for  
17 underlayment.

18 CHAIRMAN WILLIAMSON: Thank you.

19 COMMISSIONER ARANOFF: Just to clarify that.  
20 When you're referring to softwood that's used for  
21 underlayment you're referring to a product that's 100  
22 percent softwood with no hardwood?

23 MR. SIMON: That is correct.

24 COMMISSIONER ARANOFF: Thanks.

25 Welcome to this afternoon's panel. I

1 appreciate your being here.

2 I asked this question to the morning panel  
3 and I want to ask it again. When you're talking  
4 simply about the thickness of the veneer face on a  
5 piece of plywood, you can start with a kitchen cabinet  
6 application but you can talk about any application.  
7 Are there any performance advantages associated with  
8 having a very thin face veneer as opposed to a  
9 slightly thicker face veneer?

10 MR. GRIMSON: Commissioner Aranoff, I'll get  
11 the ball rolling here.

12 I do not think that the thickness, the  
13 thinness of the face veneer on the Chinese panel is  
14 what gives the product from China the superior  
15 quality. It's what's underneath that. And it is the  
16 core that Mr. Bendix was talking about.

17 Maybe you guys can chime in on that.

18 MR. DOUGHERTY: The core is a critical  
19 component, and I think before you just look at the  
20 attributes of the core you have to start with the  
21 resource. It's a plantation crop. Understanding that  
22 it's a plantation crop, it's a small diameter log. It  
23 gets peeled very, very thinly which allows the  
24 manufacturers to lay up multiple cores, more cores  
25 than what the domestic producers do.

1           So from there, all of a sudden you start  
2 building better product capabilities, screw hold  
3 capabilities, stapling capabilities, into the panel  
4 itself.

5           COMMISSIONER ARANOFF: The domestic  
6 producers told us this morning that when the  
7 Commission is being asked to look at the fact that so  
8 much of the Chinese product that's imported is a very  
9 thin-faced veneer product. They said that's really a  
10 red herring. Nobody wants the product because it has  
11 a really thin face veneer. I think you've just agreed  
12 with them, you said that's not why you want the  
13 product. Is that correct? It just happens to have a  
14 very thin-faced veneer.

15           MR. WEAVER: Can I comment on that? This is  
16 Bill Weaver.

17           I think it lies somewhere in between those  
18 in that I'm not sure I can say nobody wants a thin-  
19 faced veneer. A thin-faced veneer is a component that  
20 drives into that panel. A thin-faced veneer is  
21 acceptable in certain instances. The ones that we  
22 have talked about. But it all drives back into that  
23 panel, and obviously it drives into a cost factor at  
24 some point.

25           When you look at the things that we have

1 talked about, plantation growth, what the core is, how  
2 it's done, et cetera, et cetera, and the greater  
3 utilization of those veneers, they'll drive into a  
4 costing. Not necessarily are they dumping, but are  
5 the actually underlying costs to produce that panel  
6 less? The utilization of the veneer provides that.

7 So that's one of the factors. Like if we  
8 were to look at a material we would use, we would look  
9 at first the quality of it, we would look at supply  
10 chain, how well that supply chain can support us, et  
11 cetera, et cetera. Then we would look at price.

12 But through that, a thin-faced veneer is  
13 adequate for what we want.

14 So a thick-faced veneer would be a waste to  
15 us in that application.

16 Does that make sense?

17 COMMISSIONER ARANOFF: Yeah.

18 I sort of consider myself an aficionado of  
19 kitchen cabinets having recently redone my kitchen for  
20 the second time.

21 MR. WEAVER: I hope it was a good  
22 experience.

23 COMMISSIONER ARANOFF: It was, because I had  
24 a good contractor.

25 When you're making the back panel of a

1 cabinet, let's say, and you're importing this imported  
2 plywood product with this very thin veneer and this  
3 hardwood core of many plies. You get the product that  
4 way and aside from cutting it to shape, what do you do  
5 to it? What are you putting on top of the face veneer  
6 that you're seeing in the back of the cabinet?

7 MR. WEAVER: Different manufacturers will  
8 use different things. In our case we use UV coating  
9 so it's clear and you see the veneer through it. In  
10 Pete's case, they use a paper overlay that has a wood  
11 grain to it. So different manufacturers will do  
12 different things with it. It just depends on that  
13 particular manufacturer.

14 But once again I think it was pointed out  
15 this morning to the use that you asked, what really  
16 determines for you the wearability on that is what is  
17 that coating on top of it and what is the wearability  
18 of that coating. Not the piece of veneer underneath  
19 it.

20 The piece of veneer, as you saw those  
21 samples, could you read this and could you not read  
22 this? That's really the difference in that for is it  
23 good enough or not. But once again, for durability  
24 it's going to be the top coat that's on there.

25 MR. SPENCER: This is Carl Spencer.

1                   Specifically to the cabinet back, and by the  
2 way that's an excellent question because the back is  
3 in fact the strength of the cabinet. How the back is  
4 applied has a lot to do with whether cabinets stay on  
5 the wall or not and stay together. That's the right  
6 thing to look at.

7                   For that very reason the way we attach ours  
8 is they're actually stapled onto the box and then  
9 they're held in place with shear-loaded nailers. The  
10 critical factor there is do the staples pull through  
11 it or do they hold? If you have a softwood they don't  
12 generally stay put. If you have a hardwood you've got  
13 more resistance and you have more shear strength in  
14 the back.

15                   COMMISSIONER ARANOFF: Is there anyone here  
16 today who is selling into the RV and mobile home  
17 segment?

18                   MR. SIMON: This is Greg Simon again. We've  
19 sold into the RV and mobile home segment for most of  
20 my career.

21                   The predominant use there is very thin  
22 panels, thinner than what we've described here, 2.7  
23 millimeter or one-eighth of an inch, 3.4 millimeter  
24 plywood that's used in all parts, including paper  
25 overlay lamination. Predominantly there are sources

1 for that that come from other countries besides China.

2 They come from Indonesia and Malaysia. That is the  
3 predominant use. There are other end users of wood  
4 products in that industry that use the plywood from  
5 China for the same applications in many senses that  
6 cabinet makers have stated for paper overlay  
7 lamination, and will continue to use an import source.

8 COMMISSIONER ARANOFF: Just so I understand,  
9 this very thin plywood that's going into these mobile  
10 home applications, this is being used for the inside  
11 of the walls or for partitions between rooms? Is that  
12 what it's being used for?

13 MR. SIMON: A mobile home or RV is literally  
14 almost a plywood box if you think about it that way.  
15 So even the aluminum or the fiberglass is laminated to  
16 plywood to make up the outer walls. Almost every  
17 component in the RV -- floors, ceilings -- utilize  
18 some form of plywood. That's correct.

19 COMMISSIONER ARANOFF: And then of course if  
20 you're going to hang a cabinet in there for the  
21 kitchen you've got to hang it on something that's  
22 stronger than two millimeter plywood, right?

23 MR. ROGERS: Commissioner Aranoff, this is  
24 Tom Rogers.

25 I think if you look at the purchasers'

1 questionnaires you'll see from some of those  
2 manufacturers that they buy from all sources. I think  
3 it's a reflection of they need different products for  
4 different uses.

5 MR. DOUGHERTY: This is Shawn Dougherty with  
6 Northwest Hardwoods.

7 We sell a lot of hardwood lumber into the  
8 market. We sell a lot of imported panels. It's a  
9 significant market for us because as you can imagine  
10 an RV or a mobile home is predominantly a wood product  
11 with large exterior shells.

12 Probably the biggest change for us though in  
13 the last few years to our surprise was the ability for  
14 China to do more 5.2 panels which took away from other  
15 countries such as Indonesia and Malaysia and removed  
16 market share from them as they got into thinner  
17 panels.

18 COMMISSIONER ARANOFF: So 5.2 is thinner  
19 than what they were providing before for that  
20 application or thicker?

21 MR. DOUGHERTY: It became an additional  
22 product for them.

23 COMMISSIONER ARANOFF: Okay.

24 MR. SIMON: If I can also add, there's a  
25 weight issue. As you imagine, a mobile home, RV, or

1 trailer that you'd pull along, gas is very expensive.

2 You obviously want in all manufacturing aspects to  
3 think about weight. Whether that means that you're  
4 shipping a cabinet like these gentlemen do, or you're  
5 building an RV. It's fuel efficiency. So there's a  
6 tremendous amount of resources in China which are made  
7 of lighter weight cores that are specifically designed  
8 to decrease weight. Heavy softwoods like fir add  
9 weight to a product like that when everyone's trying  
10 to cut down on their shipping costs and to increase  
11 fuel efficiencies.

12 COMMISSIONER ARANOFF: I'm going to try and  
13 wrap my brain around the idea that a hardwood core  
14 weighs less than a softwood core of the same size. It  
15 doesn't seem intuitively obvious, but you gentlemen  
16 are the experts.

17 MR. SIMON: The two small squares of plywood  
18 that we handed up may illustrate that very thing if  
19 you can find them.

20 COMMISSIONER ARANOFF: It looks like I'm out  
21 of time so I'm not going to go onto the next question  
22 that I had. I'll come back in the next round.

23 Thank you very much.

24 CHAIRMAN WILLIAMSON: Thank you.

25 Commissioner Pinkert?

1                   COMMISSIONER PINKERT: Thank you, Mr.  
2 Chairman. I join my colleagues in thanking you for  
3 being here today to help us understand this industry.

4                   I want to begin with a question that's  
5 prompted by something that the domestic industry  
6 talked about. They talked about the difficulties they  
7 experienced in competing with the Chinese product in  
8 the lower product grades.

9                   I know that you've testified about  
10 differences between the subject imports and the  
11 products made by the U.S. manufacturers. But can you  
12 state specifically the extent of the head-to-head  
13 competition in the lower product grades between the  
14 Chinese product and the U.S. made product?

15                  MR. SIMON: This is Greg Simon again.

16                  I think that probably all my colleagues here  
17 have something to add to that, so I'll start.

18                  One of the things you need to think about is  
19 when they're peeling these logs they're peeling it to  
20 a thickness. So their lower grades are all coming off  
21 with the same thickness as they have in their higher  
22 grade applications.

23                  So you're already adding a component there  
24 to that that the Chinese are doing differently.  
25 Everything's peeled thin. The lower grades are also

1 thin veneers. It contributes greatly to someone's  
2 production and the way that they would use those  
3 products. They would be used differently. That's one  
4 thing.

5 The other is you heard what their yields  
6 were on their logs. That was a huge percentage of  
7 high grades that came off of there.

8 So customers that we talk to struggle to get  
9 enough of the lower grades from the domestic  
10 manufacturers and sometimes have to buy a certain  
11 percentage of the higher grades to get a certain  
12 amount of the lower grades.

13 MR. WILKINSON: I haven't spoken yet. Gregg  
14 Wilkinson, Senior Vice President with Liberty Woods  
15 International.

16 Also in adding to that, just inherent of the  
17 logs that you're looking there, the yield  
18 predominantly is going to come out of the Chinese  
19 material is all going to be by log diameter, the lower  
20 grades.

21 Lower grades, adding to what Greg said,  
22 thinner veneers, more veneers than the core allows  
23 with the calibration. A little different strength  
24 aspect than the U.S. produced material. So it goes  
25 into different applications. It can go into formica

1 overlay into a store fixture. It can go into crating  
2 that needs strengths characteristics that's not  
3 inherent of material that's going to have a thicker  
4 face. That's actually a downfall for a decorative  
5 product.

6 There are a lot of different applications  
7 that that product is going to go into, besides just  
8 the interior of that cabinet. Even though that  
9 process with the thin veneer and the way it's laid up  
10 is a perfect application with the thin veneer. It's  
11 going to lay a super smooth surface down for them to  
12 lay that 30 gram paper on so that there's no  
13 telegraphing.

14 So it's multi-structural kind of integrity  
15 uses that they're targeting in that product.

16 MR. DOUGHERTY: Of I might also add, in that  
17 market segment these are my competitors. The fellow  
18 importers. I'm competing with them and they're  
19 competing with me in that market segment.

20 The domestics are competing with themselves.  
21 When you're talking about the low end. There's an  
22 apples and oranges comparison.

23 COMMISSIONER PINKERT: So you're saying  
24 there's no head-to-head competition in the lower  
25 grades between the subject imports and the

1 domestically produced product.

2 MR. DOUGHERTY: What I'm saying is that in  
3 terms of the total market, I'm not saying there's zero  
4 overlap, but on a day-to-day basis these are my  
5 competitors in that market segment.

6 MR. SIMON: I think, Commissioner Pinkert,  
7 one thing to keep in mind is that the grade is a  
8 measure of the appearance, of the veneer, of how it  
9 looks. But that doesn't mean that a Chinese grade C  
10 and a domestic grade C are the same. All the other  
11 fundamental differences that we're talking about are  
12 still there. I think that Gregg said it best. The  
13 Chinese product is competing with China and other  
14 imports; and the domestics are competing with each  
15 other.

16 MR. WEAVER: If I can add to that from a  
17 user 's perspective.

18 What Jeff said is true. It is -- From a  
19 Chinese log you don't get a veneer that looks like an  
20 A face from an American log. They're just two  
21 different worlds entirely. So the best veneer you  
22 would get from a Chinese log is going to be a lower  
23 grade, very far down the spectrum to begin with.

24 So there's not this direct overlap in the  
25 choices that we get. When we go to a domestic

1 manufacturer what they might call a B grade or a C  
2 grade, is going to be very different than the lower  
3 end that we get from the Chinese and its appearance in  
4 what we can do with it. They're just not the same at  
5 the end of the day.

6 COMMISSIONER PINKERT: Thank you.

7 Any other comments on that issue on the  
8 panel?

9 MR. DOUGHERTY: I'm going to step out of the  
10 4x8 dimension product. As we're trying to go back to  
11 capacity at Northwest Hardwoods, we have a range of  
12 grades that don't easily fit into the marketplace. So  
13 we're constantly reinventing ourselves, we're  
14 constantly finding new applications, we're constantly  
15 looking for new customers around the world.

16 So as most companies try to increase their  
17 capacity, it's part of the growing pains.

18 COMMISSIONER PINKERT: Thank you.

19 To what extent do big box retailers drive  
20 competition and pricing in the U.S. market?

21 MR. GRIMSON: There is an analysis that we  
22 provided in our brief that's all proprietary, but it  
23 provided a compilation of the big box questionnaire  
24 data and I would recommend you to taking a look at  
25 that.

1           The big boxes are not here today. I know  
2           that they rarely are here, but they tend to operate in  
3           their own world. I think you've seen that in a lot of  
4           cases.

5           When we surveyed the room yesterday,  
6           preparing for this hearing, I asked if anybody had  
7           ever been told, your price is too high. I can go down  
8           to Lowe's and get that product, and they all just  
9           looked at me like I was crazy.

10           Perhaps you all can elaborate some more on  
11           that.

12           But we do not see the ripple effect out from  
13           the big boxes that the Petitioners alluded to.

14           MR. SIMON: This is Greg Simon. I'd like to  
15           add to that. Many of the big box stores are huge  
16           consumers of domestic hardwood plywood. One of the  
17           Petitioners recently entered into an agreement with  
18           one of the big boxes that certainly will take a lot of  
19           capacity off the marketplace.

20           There have been many distributors and end  
21           users that have told me that because of that agreement  
22           they can't get quite as much or quite as, can't get  
23           their orders filled quite as quickly because of the  
24           commitment to the big box.

25           So I think the big boxes do influence it,

1 but certainly on the supply basis for what's being  
2 produced here domestically.

3 If this petition goes into effect, it's  
4 going to further enhance that supply chain shortage.

5 COMMISSIONER PINKERT: Thank you.

6 I heard your testimony about the  
7 Petitioner's arguments about the petition effect in  
8 this case. And you talked about how general market  
9 conditions were improving during that period.

10 For the post-hearing what I'd like you to  
11 take a look at during that period after the petition  
12 was filed and the of course after the preliminary  
13 duties were imposed.

14 What I'd like you to look at is first,  
15 changes in domestic industry market share.

16 General conditions could be improving or not  
17 improving, but that wouldn't explain changes in market  
18 share, it seems to me.

19 Secondly, take a look at that argument that  
20 Mr. Malashevich made about the gap in prices between  
21 the subject imports and the domestic producers  
22 changing during that period.

23 So we're not talking about overall increases  
24 in prices or overall decreases or overall steadiness,  
25 but rather the gap between domestic prices and subject

1 to import prices. And if there were changes during  
2 that period. I'd like you to explain that.

3 MR. GRIMSON: We certainly will do so.

4 One consideration I'd like to point out  
5 though is that there are some timing problems with the  
6 Petitioner's story about the post-petition effects.  
7 First being this case wasn't even filed until the end  
8 of September, so third quarter 2012 was pretty much in  
9 the books. Yet you were seeing price changes  
10 beginning to occur in 2012, and I think that our  
11 cabinet folks discussed that.

12 Second is the duties, the first  
13 countervailing duty began on March 14th. So that was  
14 almost through the whole first quarter.

15 So then you get to finally the second  
16 quarter and you say is this where maybe the duties  
17 have their first impact on pricing? And I think that  
18 maybe you guys can talk about your lead times in  
19 placing orders, how fast can something roll through  
20 your procurement process to lead to price changes?

21 COMMISSIONER PINKERT: Just briefly, please,  
22 because I'm at the end of my round.

23 MR. WEAVER: We have the ability to forecast  
24 quite a ways out, so we're placing orders sometimes on  
25 some goods maybe three or four months out. We'll have

1 a lot of stuff in the pipeline. It's a continuous  
2 process for us. So we recognize those fluctuations  
3 and variations but there's some long term planning  
4 that goes in there. So we were ramping up already as  
5 you came into the year. We picked up in the middle of  
6 last year. That continued into this year in the 20-  
7 some percent range. So we were already increasing  
8 that procurement as we went along, projecting out.

9 COMMISSIONER PINKERT: Thank you very much.

10 One last thing for the post-hearing, I had  
11 asked this question of both sides earlier today, but I  
12 want to reiterate this in the context of that petition  
13 effect issue.

14 If at the end of the day you conclude that  
15 there was some impact on the domestic industry  
16 financial performance of the filing of the petition  
17 and the preliminary duties, then I think you should  
18 contrast that with what happened during the main part  
19 of the period of investigation. Because I think this  
20 goes to your but for argument that you made in your  
21 brief, it may be that there are some differences  
22 between that petition period and the main part of the  
23 investigation period that would help you with your but  
24 for argument.

25 With that I thank the Chairman and I thank

1 the panel.

2 CHAIRMAN WILLIAMSON: Thank you.

3 Commissioner Johanson?

4 COMMISSIONER JOHANSON: Thank you, Mr.  
5 Chairman. I would also like to thank you all for  
6 appearing here today.

7 I'm going to start with a very basic  
8 question. If U.S. hardwood plywood does not compete  
9 with Chinese hardwood plywood, why would U.S. plywood  
10 manufacturers initiate this investigation?

11 MR. GRIMSON: We asked ourselves that  
12 question many, many, many times. I think you can ask  
13 these three gentlemen up here why would the  
14 Petitioners launch something that is going to harm if  
15 not destroy their biggest customers.

16 Frankly, we think that either they believed  
17 their theory going into this case and they Just have  
18 fundamental disbelief of the difference in the  
19 products, or they were mistaken.

20 Nobody here really can explain what was  
21 going through the minds of the Petitioners, but I  
22 think that the level of passion that you heard out of  
23 especially Mr. Spencer as a small manufacturer, you  
24 hear that they really can't explain it.

25 MR. NEELEY: I would just add, this is Jeff

1 Neeley from Barnes Richardson, this is something we'll  
2 be glad to address a bit in our post-hearing. It is a  
3 question as Jeff Grimson said that we've asked  
4 ourselves.

5 There are reasons that are not necessarily  
6 economic reasons directly that people file cases. And  
7 I think we'll give you some further thoughts about  
8 that in our post-hearing brief.

9 COMMISSIONER JOHANSON: I'd appreciate that,  
10 because hearing the producers we have here today, Mr.  
11 Spencer, Mr. Weaver and Mr. Bendix, you all feel very  
12 strongly about this, it's very apparent by that. But  
13 then again it entered my head well, why are the  
14 resources being used to bring this investigation if  
15 this product indeed does not compete.

16 MR. WEAVER: This is Bill Weaver. Quite  
17 frankly, I don't know. As Jeff pointed out, we've  
18 looked at it every which way and it just doesn't make  
19 sense to us and there's a lot of speculation. I'm not  
20 sure it would be fair for me to put what that  
21 speculation is out in my own mind, but I do recognize  
22 that there are only a handful of domestic suppliers.  
23 If you take the foreign competitors out, you then own  
24 the market. I'm not saying that's the reason, but  
25 when I look at it from my chair, what does this do?

1 It forces us all to have to go to their will. It  
2 takes away choices from us.

3 MR. SPENCER: This is Carl Spencer.

4 Just an observation. I'm not sure it  
5 answers the question, but I think it can kind of  
6 demonstrate our confounded mindset on this.

7 I don't believe any of us have changed our  
8 product mix or our material mix within our products in  
9 any significant way over the last ten years.  
10 Certainly maybe even more than that.

11 So if we're not changing, then what gives  
12 here?

13 The only thing that we know is that in the  
14 fall of 2008 our business went down and it's just now  
15 starting to recover.

16 COMMISSIONER JOHANSON: Mr. Bendix?

17 MR. BENDIX: Not to be repetitive here, but  
18 that is a question on the table because we're  
19 completely baffled as well. We have not changed our  
20 procurement strategies for a decade plus.

21 We have close relationships, we feel, with  
22 our domestic suppliers. We have been as hurt in this  
23 great recession as many companies and industries have.  
24 Our company and our industries have suffered greatly  
25 with loss in top line, with loss of operating margins,

1 and it's been very, very difficult.

2 Finally, the sun is coming up on the horizon  
3 it would seem a little bit with the economy, and now  
4 we have this in front of us and it's been very  
5 delegating for our industry because we've been also  
6 suffering significantly through these last years.

7 Again, our procurement strategy has not  
8 changed at all. It's completely the same as it was  
9 since the petition was filed. We completely don't  
10 understand.

11 MR. SIMON: Yes.

12 MR. DOUGHERTY: Again, Shawn Dougherty,  
13 Northwest Hardwoods, largest producer of North  
14 American hardwoods. Our industry is \$7 billion. We  
15 share a lot of the same customers as the Petitioners.

16 We ask ourselves that same question, especially when  
17 you look at the output from the Petitioners at about  
18 600-700 million board feet. It's a great question and  
19 we can provide more information in the post brief.

20 COMMISSIONER JOHANSON: I look forward to  
21 reading that. What effect has the Lacey Amendment had  
22 on subject imports? Has either the prohibitions or  
23 the declaration requirement affected sourcing or the  
24 level of imports?

25 MR. GRIMSON: Thank you, Commissioner

1 Johanson. I know that everybody is anxious to speak  
2 about this, but I wanted to say a few words about the  
3 Lacey Act. The first is, as you know, it's the  
4 world's strictest anti-illegal logging regime.

5 We took a great step in 2008 as the world  
6 leaders to try and combat the problem of illegal  
7 logging. There are very high penalties for violating  
8 the Lacey Act including strict forfeiture of the goods  
9 whether or not you knew you had illegal timber.

10 But there is a great effort amongst  
11 everybody buying from China, including the  
12 Petitioners, to make sure that they and everyone else  
13 is sourcing legally. The first place it starts is  
14 those logs right there that are plantation grown.

15 You already are looking at a resource that  
16 is less risky, not more. When you're talking about  
17 the plywood case, the environmental investigative  
18 agency, sting operations that are very much attention  
19 grabbing relate to exotic woods from Madagascar or  
20 India or Mozambique was a recent study.

21 But we're not talking about any of that  
22 stuff, and it's easy to come in here and to smear a  
23 whole country and to say that everything over there is  
24 illegal which is more or less what we heard this  
25 morning.

1           But you have to look at the starting point  
2 for all this raw material. It is a very sustainable  
3 resource. These folks take it very seriously and if  
4 anything, the Lacey Act is a threat factor that weighs  
5 against the Petitioners because these folks want to  
6 continue buying from the few companies that they know  
7 and trust, not the other unknown numbers of folks in  
8 China. It is a barrier to trade, barrier to entry.

9           MR. DOUGHERTY: I think it has been  
10 effective, but I agree with Kip. It's not something  
11 that gets fixed overnight. It's going to be  
12 continuous efforts by PEFC to recognize other  
13 countries' forestry standards whether it's in Malaysia  
14 for MTCC certification.

15           They're doing a great job of creating an  
16 umbrella of like standards which give other countries  
17 PFC recognition. I think there are many good things  
18 in place. The environment keeps changing. Initially,  
19 we were SFI certified and now we've become PEFC  
20 certified.

21           Consumers in the European market with the  
22 new EUTR are taking it seriously. And so it's a great  
23 thing, but it's a big world. I think all of us that  
24 go into this, we have varying levels of maybe due care  
25 that we pursue, but you'd be surprised how many people

1 actually want to do the right thing.

2 CHAIRMAN JOHANSON: Is compliance expensive?

3 MR. DOUGHERTY: There is a cost associated  
4 with it.

5 CHAIRMAN JOHANSON: Thank you very much. I  
6 first became familiar with the Lacey Act back there  
7 with the 2008 farm bill and just kind of forgot all  
8 about it. But it's somewhere in the back of my head.  
9 But thank you for speaking on it today.

10 I think I have time for one more question in  
11 this round. You all, the three manufacturers here  
12 today, spoke on the construction of cabinets. You  
13 spoke on generally on high-quality cabinets.

14 What about lesser quality cabinets? What  
15 percentage of the cabinets in the United States are of  
16 lower quality in which appearance is not that big of a  
17 factor, in which might be painted over?

18 I ask that because I've live in many places  
19 with cabinets like that which weren't as nice as the  
20 ones that you're demonstrating here today. And are  
21 those cabinets primarily constructed of imported wood?

22 MR. WEAVER: This is Bill Weaver once again.  
23 Usually the division you're going to get is between  
24 is it a plywood cabinet or a particle board cabinet?  
25 It's not necessarily going to be lesser degrees of

1 plywood. It will be one or the other. So when that  
2 price drops, generally you're going to drop into  
3 particle board which has totally different properties  
4 than plywood.

5 COMMISSIONER JOHANSON: That makes sense and  
6 that was a very quick answer which is good because I  
7 have about three seconds left. So thank you for your  
8 responses.

9 COMMISSIONER BROADBENT: Thank you. For Mr.  
10 Wu from China and Mr. Du Bo, what steps do Chinese  
11 firms take to limit sourcing from illegal logs?  
12 What's your perspective on that issue in China and  
13 tell me, please.

14 MR. WU: Thank you for the question. I  
15 appreciate it. With regard to illegal logging, the  
16 Petitioners and also others have been talking a lot  
17 about illegal logs. In December 15, 2008, United  
18 States already published the Lacey Act Amendment.

19 Those released that year, you also published  
20 the EUTR. This is quite good for the industry to take  
21 of the environmental. Personally myself, I've been  
22 part of many seminars organized by the Interpol,  
23 Green Peace, POI, Traffic and EFI.

24 Those are part of the meetings in Chatham  
25 House and WWF in DC here. We paid quite a lot of

1 attention to this illegal logging issue. Our industry  
2 is also aware of this. Personally, I also wrote a  
3 book about Lacey Act, practical guide in Chinese for  
4 our industry, which is the only book on the Lacey Act  
5 in the world published which I did for our industry.

6 Our industry also take quite seriously the  
7 illegal logging issues. We already started the due  
8 diligence issues and it start off with assessments.  
9 The company here also they public for the copy of the  
10 social responsibility report.

11 If you want somebody here when you want, we  
12 are available to take and send it to you. Those are  
13 in the industry in China, we also have this  
14 certification together with the PFC, not endorsed yet,  
15 but will be in the near future.

16 We call it CCC. F.C. certification in China  
17 has been booming in less than a year. For the F.C.  
18 certification in China for F.C. now recently the  
19 figure is close to 3,000 certificates on our  
20 manufacturers. Nearly 900 for the forest.

21 Also for the materials we are using for our  
22 industry for the piles as everybody know that. We are  
23 using majority poplar and eucalyptus for the core  
24 which is environmentally friendly.

25 People are saying that. Okay, we have logs

1 imported from Russia which is 70 percent illegal.  
2 These numbers I heard many times. Those participate  
3 six times dialogue between China and Madagascar about  
4 the Lacey Act. We have been negotiating and talking a  
5 lot.

6 The figures are not reliable and I do want  
7 to comment, but we take care for ourselves side. The  
8 logging in Russia has been dramatically reduced in  
9 recent years. On top of that, the F.C. and PFC  
10 certified logs coming to China are coming more and  
11 more.

12 Also on the business side. I think all  
13 American buyers together and Petitioners, you also do  
14 a business. Also, this year, you're still doing  
15 business in China. I think you are the serious man  
16 doing the business. Thank you.

17 MR. NEELEY: I'd like to just add one or two  
18 thoughts perhaps. One is, if we could have the  
19 opportunity to perhaps supplement some of this that  
20 data that Mr. Wu has, it may be helpful in the post  
21 hearing.

22 COMMISSIONER BROADBENT: Right, it would be  
23 helpful to know sort of how much of this product  
24 exported from China is from imported wood.

25 MS. NEELEY: We can take a look at that and

1 other issues as well. The other comment was, and  
2 you've already heard it from the importer's group and  
3 from Mr. Wu, that the Chinese side takes this very  
4 seriously.

5 One reason they take it very seriously is  
6 because their customers take it very seriously. Their  
7 customers are very much on the line for any penalties.  
8 That's driving a lot of the seriousness over there.

9 COMMISSIONER BROADBENT: Am I correct that  
10 China has not signed the illegal logging agreements?

11 MR. WU: I do not aware of any illegal  
12 logging agreement. Which one you mean, the EFI one or  
13 Green Peace one or Traffic one? There are several  
14 issues about the program I know.

15 MR. NEELEY: We can address that probably in  
16 more detail in the post brief.

17 MR. SIMON: May I please weigh in on this  
18 from both perspective of an importer and also a joint  
19 venture manufacturer in China?

20 COMMISSIONER BROADBENT: Right.

21 MR. SIMON: I testified earlier that we have  
22 two joint venture operations in China, one of which  
23 was a mandatory respondent in the Department of  
24 Commerce ADA case.

25 We're intimately familiar with Lacey procedures,

1 our requirement as a manufacturer to be fully  
2 compliant with all products that are coming out of  
3 China or anywhere else in the world That come into the  
4 United States to assure that we practice due care and  
5 the materials coming here from both sustainable  
6 resources and legally harvested woods.

7 The Lacey Act is remedial. There is  
8 something that can be done. I know that doesn't agree  
9 with all aspects of it, but it's having an affect, and  
10 as Jeff said, is somewhat of a barrier to imports as  
11 is.

12 Our mill base has shrunk dramatically simply  
13 by our compliance and due care process of which mills  
14 we'll buy from to ensure that we know where the source  
15 of the wood or coming. These are my customers here.

16 They have the same needs, the same  
17 requirements. They have to practice due care. They  
18 have to know who their suppliers are. I have to know,  
19 they have to know, the end user has to know. All  
20 those things are happening.

21 Lacey has a criminal component to it. I  
22 have a family just like Mr. Roberts. I don't want to  
23 be hauled off. So we practice due care.

24 COMMISSIONER BROADBENT: I should know this,  
25 but when you say legally harvested, who defines that?

1 Is that each country or is there an international  
2 agreement that defines that?

3 MR. WU: By my knowledge, it's each country  
4 based on their own law.

5 COMMISSIONER BROADBENT: On their own  
6 domestic law?

7 MR. NEELEY: I believe that's part of the  
8 Lacey Act actually, that it's defined by each country.

9 COMMISSIONER BROADBENT: Okay. Great.  
10 Helpful. Can some of the cabinet manufacturers here  
11 tell me, are you seeing important competition with  
12 your product, the product you're competing in the  
13 market? Are the Chinese starting to export that?

14 MR. WEAVER: This is Bill Weaver once again.  
15 Yes, the Chinese cabinets that originally started  
16 becoming popular in the nation, I want to say maybe 15  
17 years ago, they have greatly picked up in magnitude.  
18 We just had a kitchen and bath industry show and there  
19 was probably 15 plus either importers or Chinese  
20 cabinet companies going in that shape and probably  
21 five American cabinet companies.

22 Predominantly, they have been in the lower-  
23 end products which then force the US lower end  
24 producers to produce a higher-end product which kind  
25 of squeezed that competition band a little bit.

1           We've seen lately some better grades of  
2 cabinets coming in to the United States from China  
3 than in the past. I would like to comment on Chinese  
4 cabinet production. I've been to China a number of  
5 times.

6           The Chinese do have the ability to make some  
7 very nice cabinets. They make some low-end cabinets,  
8 but they also have the ability to make some very nice  
9 cabinets.

10           That is one of our concerns through this  
11 whole hearing is that this will narrow that gap  
12 between us and the Chinese and probably put the  
13 Chinese in a more competitive basis of these duties  
14 stick because they'll be able to, one, import more  
15 product to be more price competitive than they are in  
16 the higher-end products.

17           COMMISSIONER BROADBENT: Okay.

18           MR. SPENCER: Commissioner, this is Carl  
19 Spencer. I just want to point out that we have a  
20 competitor that's about three miles from the Canadian  
21 border, which is about 100 miles from our plant.

22           We have another competitor that comes in  
23 that we see all the time every day. We're seeing a  
24 lot of competition from Canada. We're dealing with  
25 it. If you look at a lot of the Canadian companies, a

1 large number of them have distribution throughout the  
2 continental United States, not just the Northwest.

3 The Northwest, we get whacked pretty good  
4 because even the little guys come after me. But if  
5 you just wander through. The United States is the big  
6 dog when it comes to a customer for Canadian cabinet  
7 companies.

8 MR. DOUGHERTY: Shawn Dougherty with  
9 Northwest Hardwoods. One of our fastest growing  
10 segments in China for our hardwood lumber exports has  
11 been the kitchen cabinet industry.

12 However, we're very relieved because the  
13 product has predominantly staying in country. That's  
14 good for us for exports. But we do see a little bit  
15 of the domestic manufacturers in China trying to  
16 understand the U.S. market a little bit more.

17 COMMISSIONER BROADBENT: Helpful. Let's  
18 see. Mr. Grimson, could you talk to me a little bit  
19 about global trade and the subject product here. I  
20 understand there's a lot of trade remedies on this  
21 product in other markets at this point.

22 And it's a little bit different than some of  
23 the other cases we get where we're sort of the first  
24 person putting in a trade remedy, the first country.  
25 I just wonder what you thought was going on there, and

1 whether that had anything to do with why the case was  
2 filed.

3 MR. GRIMSON: Again, I can't speak to the  
4 very last part of your question. But as to the other  
5 countries' trade remedies, I think like the  
6 Petitioners panel, we want to give you a complete and  
7 accurate list of those, and perhaps address that in  
8 the post hearing brief.

9 COMMISSIONER BROADBENT: Seeing particular  
10 trends in particular markets in terms of demand,  
11 growth, anything else you can tell me about global  
12 trade and this product?

13 MR. GRIMSON: Okay. That's a lot different  
14 than what I was understanding.

15 COMMISSIONER BROADBENT: The first part I  
16 want to.

17 MR. GRIMSON: Okay. We'll get that.

18 COMMISSIONER BROADBENT: Good.

19 MR. GRIMSON: So other countries demands in  
20 other countries, other markets.

21 MR. DOUGHERTY: I think it's better being  
22 addressed in maybe the post hearing because there are  
23 a lot of different applications. It's film faced, it  
24 can be used as a packaging Japan.

25 It can be used for packaging in Japan, it

1 can be construction form work in the Middle East.  
2 There are just a lot of different applications and so  
3 maybe we can give you some of that information in it.

4 COMMISSIONER BROADBENT: It seems to me that  
5 the Chinese exports to the U.S. are growing much  
6 faster than to any of the major market. I just  
7 wondered about it. Take a look. See what you can  
8 say. I appreciate it.

9 CHAIRMAN WILLIAMSON: On page 84 of AAHP  
10 pre-hearing brief, you argues that underselling  
11 margins show that U.S. sales are almost entirely  
12 isolated from movements in Chinese prices and volumes.

13 Mr. Grimson, can you cite any investigations where  
14 the Commission made this type of finding?

15 MR. GRIMSON: I can think of a few where  
16 there have been a disconnect between the line of the  
17 import pricing and the domestic industry pricing that  
18 were really related to product differences. One that  
19 come to mind right off the top of my head, I have to  
20 think back 15 years to see.

21 CHAIRMAN WILLIAMSON: If you want to do it  
22 post hearing, that's fine.

23 MR. GRIMSON: I think we'd like to do that  
24 is deal with it post hearing.

25 CHAIRMAN WILLIAMSON: On page 78, 79 of your

1       brief, you argue that there is no impasse on domestic  
2       prices. There are no price conversions as would be  
3       expected in substitutable products. Again, can you  
4       say any investigations where the Commission made that  
5       type of finding. If you want to do that post hearing,  
6       that's fine.

7               MR. GRIMSON: We'd like to do that.

8               CHAIRMAN WILLIAMSON: Okay. Thank you.  
9       What do you see as likely future U. S. demand, and  
10       what can you say about likely future of raw material  
11       consists?

12              MR. WEAVER: I'll speak in terms of use in  
13       the cabinet business as we expect the economy to  
14       recover.

15              CHAIRMAN WILLIAMSON: Mr. Weaver, yes.

16              MR. WEAVER: Mr. Bill Weaver. Normalized  
17       housing market is about 1.6 housing starts based on  
18       household formations, house destruction, etcetera. We  
19       are roughly in the 90,000 to 1 million, depending on  
20       who you look at right now.

21              We expect that growth to recover as long as  
22       there are no black swans out there over the next few  
23       years. We look at internally what kind of market  
24       share we can gain in addition to that.

25              Our projection is that we'll continue to

1 grow. It might be 20-25 percent base a year until new  
2 construction comes back fully, and then there will be  
3 a leveling off from there just based on meeting the  
4 demand at that point in time.

5 CHAIRMAN WILLIAMSON: Did someone else ask  
6 you this question because I heard it before?

7 MR. WEAVER: Say that again?

8 CHAIRMAN WILLIAMSON: I was wondering if  
9 somebody had already asked you this question because I  
10 think I heard it before?

11 MR. WEAVER: No, but you heard of some these  
12 statistics from other people before. They all kind of  
13 all blend together when you look at market projections  
14 and you look at that growing demand.

15 CHAIRMAN WILLIAMSON: You're looking into  
16 housing market which bear in mind, the housing market  
17 and the existing home sales market. The existing home  
18 sales market is the primary driver of the remodel  
19 market. New home sales are obviously the primary  
20 driver of new construction.

21 But those two are two different curves that  
22 usually flow the same way over time. They may have  
23 some differences in them for a short period of time,  
24 but over the same period of time, they're going to  
25 have to follow the same trend lines.

1           A normalized market increases everybody's  
2 business in the United States probably at least  
3 another 50 percent including the private  
4 manufacturers. I assume that demand for cabinetry for  
5 remodeling lags behind the purchase and sale of  
6 housing.

7           MR. WEAVER: Right. As you follow existing  
8 home sales, right now it's a little different than  
9 more normal times primarily because of the number of  
10 underwater mortgages. That has dulled that affect on  
11 existing home sales somewhat. But there will come a  
12 point where all those converge back to a more normal  
13 curve.

14           CHAIRMAN WILLIAMSON: Thank you. What about  
15 raw material costs?

16           MR. DOUGHERTY: This is Shawn Dougherty with  
17 Northwest Hardwoods. If you own a saw mill of any  
18 sort or plywood mill, your number one concern at night  
19 is your raw material, right?

20           You could be in a great region, but not have  
21 enough raw material and you're producing it at 50  
22 percent capacity. That is your future. So raw  
23 material costs, we're seeing them increase.

24           With all the capacity that's been taken out  
25 of the system, we're seeing more people fighting for

1 what's left. We're seeing people hold off markets on  
2 selling resource.

3 We're coming out of a terrible recession.  
4 It's going to take a little while for it to stabilize  
5 and everybody to get their capacity back up to where  
6 they like it. It will probably include new closures  
7 to some because they're not in the correct growing  
8 regions.

9 CHAIRMAN WILLIAMSON: Thank you. The data  
10 from the Chinese producers show that they shipped this  
11 to the home market as the total shipment fell in 2011  
12 and 2012. I wonder, how do you explain this given  
13 your arguments about demand and growth in China.

14 Mr. Wu?

15 MR. WU: Actually in China, not only the  
16 housing is developing, we are in need of the products.  
17 But our product is driven which is using the product.  
18 As I said earlier in my briefing that the furniture  
19 packaging company, hardwood flooring, and also  
20 packaging who use different kind of hardwood flooring.  
21 Actually, the whole market demand for flooring, it is  
22 increasing a lot everyday.

23 CHAIRMAN WILLIAMSON: Is it increasing  
24 faster than your overseas demand?

25 MR. WU: Yes, definitely.

1                   CHAIRMAN WILLIAMSON: Okay. Was there any  
2 difference, say, in 2011 and 2012 as regards to, say,  
3 2013 going forward?

4                   MR. WU: The industry is growing quite a lot  
5 actually. Economy grows. Industry grows. Product  
6 market grows.

7                   MR. NEELEY: We'll take a look at that and  
8 comment on it in the brief.

9                   CHAIRMAN WILLIAMSON: This is for anyone.  
10 How do you explain the higher importer inventory  
11 levels that we're seeing?

12                   MR. GRIMSON: Commissioner, this gets to one  
13 of our major points obviously which is the difference  
14 between the import stats using HTS categories and  
15 using the questionnaire data reported by the  
16 importers.

17                   We think that you can't possibly use the  
18 import stat data because of reasons related to the  
19 timing of what you're seeing there. A better data set  
20 is to look at the import questionnaire, the import  
21 questionnaire data.

22                   If you look at the import questionnaire  
23 data, you see a build up of inventory that appeared at  
24 the end of 2012 and what I was hearing in our  
25 discussions about that is that was in anticipation of

1 increased demand.

2 We actually in 2012, and you heard today,  
3 started to climb out of the recession really in terms  
4 of demand for hardwood plywood. There is another  
5 affect that is lesser one, but one that happens  
6 related to the Chinese New Year and when that comes  
7 and perhaps some of the guys can speak to that.

8 MR. SIMON: The purchasing plan that we put  
9 into place always takes Chinese New Year.

10 CHAIRMAN WILLIAMSON: Mr?

11 MR. SIMON: Mr. Simon. I'm sorry. Our  
12 purchasing plan always takes Chinese New Year into  
13 effect almost for whatever country we're buying from  
14 in that region. We have to plan ahead.

15 Normally, the factories will take a three-  
16 week holiday, but it really does affect production for  
17 almost two months. We are always factoring in Chinese  
18 New Year, and whether it's a good market or a bad  
19 market for us here, and whether the economy is up or  
20 down, that's always a factor in our purchasing  
21 decisions. It did affect our decisions in this  
22 period.

23 CHAIRMAN WILLIAMSON: Thank you.

24 MR. WILKINSON: Gregg Wilkinson. I'd like  
25 to add to that of Liberty Woods. That is industry

1 wide. That is not unique just to Far East. All  
2 importers from Southeast Asia are planning around  
3 that. It's very typical in season.

4 CHAIRMAN WILLIAMSON: Thank you. I can't  
5 help but ask this last question since this domestic  
6 red oak here keeps blocking my view of Mr. Bendix  
7 there. I think there was some mention this morning  
8 about U.S. exports of logs to China.

9 I ask the question in light of the fact that  
10 some were saying that you're not going to see the type  
11 of veneer coming from China that would be made with  
12 U.S. logs. I was saying, why not, if we're exporting  
13 some there? Is that a factor?

14 MR. DOUGHERTY: Shawn Dougherty, Northwest  
15 Hardwoods. When you own a sawmill and you've taken a  
16 tract of land or you've done the buy on the logs, you  
17 bring those logs in and you merchandise them. What I  
18 mean by merchandise them is we take our saw logs,  
19 better used for the sawmill, and we take our veneer  
20 logs and we will try to sell them to a domestic veneer  
21 manufacturer.

22 However, if they are several hundred miles  
23 away, the further away those veneer operations are,  
24 the less the log can travel. Oftentimes, we see those  
25 logs going export. The export market is right there.

1       If you're in West Virginia, you're not far from the  
2       port.

3               So it becomes a tradeoff at the mill when we  
4       merchandise the product. But as for peeling a log and  
5       why the mills do differently in China, I'll leave that  
6       for others.

7               CHAIRMAN WILLIAMSON: Yes.

8               MR. SIMON: This is Mr. Simon again. The  
9       technology in China is designed to produce thin-faced  
10      veneers. They peel those logs thin just like they do,  
11      in some cases, with their birch logs.

12              It's not a market that we participate in  
13      whatsoever. With thicker veneers, if they were to  
14      choose to do that, and those logs are actually a very  
15      fractional percentage of the plywood that's actually  
16      being examined in this case.

17              CHAIRMAN WILLIAMSON: Fractional percentage?

18              MR. SIMON: Meaning that the predominant  
19      amount of material that's coming to the U.S. that  
20      we're looking at here is coming from birch logs, not  
21      the American species that you see here.

22              CHAIRMAN WILLIAMSON: Okay. Thank you. I'm  
23      sorry, Mr. Bendix, yes.

24              MR. BENDIX: Pete Bendix, Starmark. I can't  
25      speak specifically, but I think we just are looking at

1 whole different scale here with American logs being  
2 exported to Chinese mills. I think we've just  
3 included a slew of other countries now that they're  
4 going to for exporting.

5 For example, I know mills I work with are  
6 shipping plywood products before I got there to Japan,  
7 to Europe. I don't think that's linear to the kitchen  
8 cabinet industry in the United States. I think now we  
9 are talking about a larger scope I suspect.

10 CHAIRMAN WILLIAMSON: Thank you. Ms.  
11 Aranoff?

12 COMMISSIONER ARANOFF: The argument with  
13 which this panel started off your direct testimony  
14 this afternoon was to the affect that there have been  
15 improvements in a number of indicators of the domestic  
16 industry's performance and so they're not materially  
17 injured and the Commission should reach a negative  
18 determination.

19 I wanted to ask you either now or post  
20 hearing if you would consider in a number of cases  
21 that the Commission has looked at since the recession  
22 and during the economic recovery where the Commission  
23 has noted that a general economic recovery can mask  
24 injury by reason of subject imports.

25 And that even though the domestic industry's

1 performance improved from where it was at the depth of  
2 the recession, it could have improved more absent  
3 competition from subject imports. Do you want to  
4 comment on whether we should be looking at this case  
5 from that perspective now or would you like to think  
6 about it post hearing?

7 MR. ROGERS: We'll certainly --

8 COMMISSIONER ARANOFF: Could you give your  
9 name, please?

10 MR. ROGERS: Tom Rogers. We'll certainly  
11 take a more extended crack at it in the post-hearing  
12 submission. Just I'd say as an initial point that  
13 it's pretty clear that the industry was profitable  
14 throughout the entire period.

15 Even when the housing industry was in the  
16 doldrums, the industry was making money. So as a  
17 starting point, we have not seen this tremendous rise  
18 that you're talking about in terms of just at the end  
19 of the period as the economy is coming out. But we'll  
20 certainly look at that in more detail.

21 COMMISSIONER ARANOFF: Okay. I also had  
22 asked the morning panel, I was trying to look at the  
23 underselling data that we have for the six pricing  
24 products on which we asked for specific comparisons.

25 And I want to give you an opportunity to

1 comment on that too. I was trying to get an assessment  
2 of whether differences between the domestic and  
3 imported product that were not included in the product  
4 specification, could account for the degree of  
5 observed underselling.

6 I know that there was an argument that some  
7 or all of the Chinese product that was reported for  
8 Products 1 through 6 reflects a thinner face veneer  
9 than what the domestic product that was being report.

10 I know that our description 1 and 6 did not require a  
11 face header and particular thickness.

12 So that's one factor. If there are other  
13 factors that you can identify that could account for  
14 some of the price difference, that would also be good  
15 to know because I'm really trying to identify whether  
16 there are product differences that can account for  
17 most of that underselling or whether we can't account  
18 for that difference, in which case we have to assume  
19 that they're comparable products that are exhibiting  
20 underselling.

21 MR. GRIMSON: Certainly. We'll take a crack  
22 at that in the post hearing brief. I would like to  
23 react to the theory that we heard this morning that  
24 simply by answering the questionnaire, according to  
25 the definitions that the Commission set, the

1 Respondent's side is somehow admitting that this is  
2 competitive product.

3 Ad you pointed out, face veneer thickness  
4 and probably many other factors were not part of the  
5 definition. So how could the Chinese and the  
6 importers not report the data? If they hadn't, I  
7 think that that would have been an even bigger  
8 problem.

9 But there is no way that they would agree  
10 that those are competitive products. I think if we  
11 take a look through the questionnaire responses  
12 themselves, you will see many instances where the  
13 folks answering the questionnaire said, okay, I'll  
14 give you the data according to the definition you're  
15 asking for, but there are a lot of differences that  
16 make these very different products.

17 I would just say in Product 6, we asked you  
18 to include face veneer in the definition. But the  
19 questionnaire that went out omitted that part of it.  
20 We would have liked the definitions to probe that  
21 question deeper just like you did on a macro basis and  
22 found the Chinese product is all below .5 mm.

23 So by extension, everything in Products 1  
24 through 6 is also below .5 mm. But to your point,  
25 face veneer thickness is one of the differences that I

1 think you've heard about today.

2 So that might not be the only one that  
3 accounts for differences in pricing and cost. But it  
4 certainly is, from the witnesses today, a very major  
5 distinction between the Chinese and the domestic  
6 product. It flows right through to how the product is  
7 used.

8 MR. ROGERS: I think if these products were  
9 interchangeable or whatever word you want to use  
10 there, we'd see very different data in those pricing  
11 tables. We would see much more, with that level of  
12 underselling, you would see dramatic shifts in  
13 volumes.

14 You would see dramatic shifts in the pricing  
15 of the U.S. products, and we're not seeing any of  
16 that. So to me, that suggests that these products are  
17 really not competing.

18 COMMISSIONER ARANOFF: I understand the  
19 argument that you're making and I'm also willing to  
20 agree that just because a Respondent filled out the  
21 questionnaire for the pricing products don't mean that  
22 they concede that the products compete.

23 But now I'm left with these underselling  
24 margins, and I want the best empirical theory under  
25 which to understand where the price difference comes

1 from. If you can document the differences, and I can  
2 ascribe the price different to product differences,  
3 that's one out come. If I can't, that maybe is a  
4 different outcome.

5 In their brief and a lot of this was  
6 confidential so you'll probably want to look at it  
7 post hearing. The Petitioners pointed to a number of  
8 purchaser questionnaire responses in which purchasers  
9 say or suggest that when they go out looking for a  
10 supplier.

11 They look at the price first and they don't  
12 check the quality or do any sorts of supplier audited  
13 until after They found a supplier that has a price  
14 that they're happy with. Do you want to respond to  
15 that?

16 MS. MOWRY: I'll chime in on that. This is  
17 Kristin Mowry. I actually chuckled at that part of  
18 their brief because all of the quotes that they put  
19 forward are quotes in response to the question  
20 regarding negotiations.

21 I think it's fair to say that price is an  
22 important factor when you're negotiating with your  
23 supplier. I don't think that the overall impact of  
24 what they're referring to means that price is the  
25 first factor when choosing the product. It's after

1 they chosen the product that they want. Of course  
2 price is a factor. That's the market system.

3 COMMISSIONER ARANOFF: A question on the  
4 issue of threat for the Chinese producers who are  
5 represented. My understanding is that Chinese  
6 hardwood plywood is sold essentially on a spot basis,  
7 not subject to any long-term contracts; is that  
8 correct?

9 MR. SIMON: This is Greg Simon again. We  
10 saw our product both that's here and in the ports that  
11 we bring in and store material for quick distribution  
12 and short lead times to our customers predominantly.

13 We also sell some product that's based on  
14 the future basis. We'll discuss an opportunity with a  
15 customer and arrange shipment with a lead time that  
16 was described before. So we do both. The majority of  
17 our business is on the spot basis. I think that's  
18 more indicative of the industry than anything else.

19 MR. DOUGHERTY: Shawn Dougherty, Northwest  
20 Hardwoods. The quality of hardwood lumber that we  
21 produce is some of the better quality in North  
22 America. The last thing that we want to do is pull in  
23 questionable product, not have any forward contracts  
24 with our OEMs that we sell to domestically. So we  
25 probably, more so than my colleagues where, we

1 probably do a little bit more future buying not  
2 specific to end users specifics.

3 COMMISSIONER ARANOFF: The reason I'm asking  
4 is there are some investigations in which the  
5 Commission can see that there are long-term contracts  
6 or other long-term structure relationships between  
7 foreign producers and their customers either in the  
8 U.S. or in some other market.

9 And particularly when it's some other  
10 market, that can be used to demonstrate that that  
11 amount of supply is not available to come into the  
12 U.S. market.

13 And so, I'm trying to establish whether  
14 there are any arrangements like that in this case.  
15 We've seen that product from China has left the U.S.  
16 market and it's gone elsewhere. The question is how  
17 easy it would be for it to come back if conditions  
18 were right?

19 MR. WEAVER: This is Bill Weaver. Let me  
20 address that briefly. In our supply chain, we buy  
21 through an importer. We have agreed upon pricing hat  
22 extends for some period of time that can be  
23 renegotiated within different intervals.

24 So we're not buying a load today that we  
25 find out is "x" amount, and a load tomorrow that's

1 this month. We have a contract that says it's going  
2 to be "x" amount until we renegotiate that price.

3 COMMISSIONER ARANOFF: Anybody else who  
4 wants to talk about that, please feel free post  
5 hearing. Before I wrap up, I just did want to follow  
6 up on Respondent's presentation this afternoon with a  
7 question for post hearing for the Petitioners.

8 I believe it was Columbia this morning who  
9 gave us product samples that indicated that the  
10 product was available down to an 0.25 mm veneer, and  
11 also some very thin overall panel products.

12 The witnesses who testified this afternoon  
13 indicated that they've never been offered a domestic  
14 product that meets those descriptions. But my  
15 recollection this morning was that the testimony was  
16 that those are available for the asking, and that  
17 those are products that have been available from the  
18 domestic industry for some time.

19 So I would ask domestic producers who are  
20 able to produce either thin veneer or thin-panel  
21 products to please specify who you sell them to or who  
22 you used to sell them to, and for what applications,  
23 how much so that we can get a sense of how big your  
24 market is or was for these products.

25 It can be in a time period prior to our

1 period of investigation because if the argument that  
2 you're going to make is that you were pushed out of  
3 some of these markets, then I'd like to get a better  
4 sense of who you were selling it to, when you were  
5 selling it, and how much.

6 MR. LEVIN: Madam Commissioner, we'd be  
7 happy to, and I appreciate the suggestion of going  
8 back. Context is often a lovely thing.

9 COMMISSIONER ARANOFF: Could you say that  
10 again into the microphone?

11 MR. LEVIN: Certainly. I said we'd be happy  
12 to provide that information. I appreciate your  
13 suggestion about looking back at an earlier period of  
14 time as well. I just noted that context is often a  
15 lovely thing.

16 COMMISSIONER ARANOFF: Thank you very much.  
17 With that, I have no further questions for this  
18 afternoon's panel. But I do want to thank you all for  
19 taking time away from your businesses to answer our  
20 questions.

21 CHAIRMAN WILLIAMSON: Thank you.  
22 Commissioner Pinkert?

23 COMMISSIONER PINKERT: Thank you. Mr.  
24 Weaver, you talked about the impact of potentially  
25 having these duties become finalized in this

1 investigation. You talked about how the domestic  
2 industry wouldn't benefit from that.

3 But rather, the sales would go to other  
4 countries besides China. I want to ask you whether  
5 the pricing from those other countries would be the  
6 same as the Chinese pricing that we see in this  
7 investigation.

8 MR. WEAVER: Thank you for that question. It  
9 would be not necessarily the same, but it would be  
10 close and competitive to it. There are some  
11 variations depending on the specifications we ask for,  
12 and what we choose to do with that.

13 We would probably be forced though into  
14 doing an overlay versus doing the natural interior  
15 that we now primarily because of color differences in  
16 that wood.

17 The reason we would do an overlay is, one,  
18 it would be tropical species. There's a lot of color  
19 variation in tropical species that you don't get in  
20 the Chinese wood. So, therefore, it just looks better  
21 when you cover it with some type of overlay.

22 COMMISSIONER PINKERT: Mr. Bendix?

23 MR. BENDIX: Yes, our natural go-to we would  
24 think of at this point would be to go back to  
25 Indonesia. We would pay less for that panel than

1 we're paying for our Chinese panel.

2 We've speced out a premium panel. It's  
3 better construction, better and a thickness, it is not  
4 commodity product. It's produced to a thickness to  
5 meet our specifications to match with other panels we  
6 use. We'd actually pay less going back to Indonesia.  
7 We'd prefer to stay with the panel we're using.

8 COMMISSIONER PINKERT: Do I see any other  
9 heads nodding? No. You may have heard or remembered  
10 that there was some testimony about how the duty  
11 deposits were being absorbed by the importers so that  
12 it was not having an effect on price.

13 There was some discussion on the earlier  
14 panel about whether that anecdotal evidence was, in  
15 fact, accurate. But I want to give this panel an  
16 opportunity to comment on that question.

17 MR. GRIMSON: Thank you, Commissioner  
18 Pinkert. That's a strange assertion actually. We're  
19 not really sure to make of that. So the duties of  
20 course didn't go into effect until really the second  
21 quarter of 2013.

22 And the anti-dumping duty was even well into  
23 that when that was laid on. So I guess if their  
24 argument is that you didn't see a price spike  
25 equivalent to laying on the duty rates and, therefore,

1 there is absorption of duties, I think that's their  
2 theory as I understood it.

3 I think you really have a timing issue there  
4 about what is sold by the importers during the first  
5 and second quarters of 2013 versus what is being  
6 imported and having to bear those duties.

7 I really don't think you can make the  
8 connection that they're making just by comparing price  
9 incases in the one had and saying they should have  
10 gone out 22 percent or 44 percent or now in the new  
11 world of using a European country as a surrogate for  
12 China, 70 percent.

13 MR. WEAVER: This is Bill Weaver again. In  
14 our supply chain, they did not absorb it. We have  
15 some stuff that was already on the water that came in  
16 under the duties. We have some stuff that's coming in  
17 after the duties and we're the one paying for it.  
18 It's past on in our price.

19 When I heard that this morning, I was kind  
20 of surprised and thought if that's true, I should have  
21 had that supplier. But I don't, and we're paying out  
22 the duties as they come due.

23 COMMISSIONER PINKERT: Mr. Bendix?

24 MR. BENDIX: Yes, if I could chime in too.  
25 Peter Bendix. The same is true in our case. We have

1 hundreds of thousands of dollars escrowed already for  
2 these duties. And we have already have been expensing  
3 them as we're using the product on our PNL statement.  
4 It is extremely harmful to our business and our  
5 profits to date.

6 COMMISSIONER PINKERT: Thank you. Did I see  
7 you had another comment?

8 MR. GRIMSON: Maybe Mr. Simon wants to fill  
9 in a little bit about the history of how importers  
10 dealt with this difficult case where, of course, up  
11 until two days ago, every single company Congress  
12 looked at got a 0 percent duty. That was the starting  
13 point and it was a very curious thing for the market  
14 to deal with. But I'll let Greg take it over.

15 MR. SIMON: Thank you very much. Greg  
16 Simon. When this case was initiated on September  
17 27th, I had a day job. Since that time, we've managed  
18 to come together as an industry.

19 We've cooperated fully with each part of the  
20 investigation. Our joint venture mill was chosen as  
21 one of the mandatory respondents in this case. Up  
22 until Monday, we had zero dumping margin after being  
23 thoroughly examined, when compared to the Philippines.

24 Now, I know that this Commission is not here  
25 to evaluate Department of Commerce decisions, but I

1 certainly know that this is a very intelligent  
2 impartial body that has great integrity and I'm  
3 speaking to you today on that behalf.

4 Suddenly, when the Department of Commerce  
5 changes to Bulgaria, an EU country, suddenly our zero  
6 dumping margin goes to 73 percent. I'm not expert in  
7 these situations, but I know that that's somewhat  
8 shocking to a market, and that that will have ripple  
9 effects that will take customers like this and force  
10 them to look elsewhere in the world for their supply.

11 The disruptions will be huge for those jobs  
12 that Senator Wyden spoke so passionately about will go  
13 offshore where the kitchen cabinet industry in China  
14 will be supplying your cabinets in the future.

15 COMMISSIONER PINKERT: Thank you. With  
16 that, I have no further questions for the panel. I  
17 appreciate the testimony, and I look forward to the  
18 post hearing submission.

19 CHAIRMAN WILLIAMSON: Thank you.  
20 Commissioner Johanson?

21 COMMISSIONER JOHANSON: Thank you, Mr.  
22 Chairman. Some of you all have spoken this afternoon  
23 on different end uses for Chinese versus U.S. produced  
24 hardwood plywood. Some witnesses this morning  
25 distinguished Chinese versus U.S. produced hardwood

1 plywood in terms of quality and not end uses. Could  
2 you all speak on the issue of quality?

3 MR. DOUGHERTY: Again, we sell quality  
4 hardwood lumber. That is our primary business. The  
5 last thing that we can afford to do is go import poor  
6 quality panels from around the world.

7 So we have strict QC processes. We have  
8 strict mill qualifications. We have a whole chain of  
9 basically accountability in our process so that we  
10 don't lose our primary business which is selling  
11 hardwood lumber to customers because we imported the  
12 wrong panel.

13 MS. MOWRY: This is Kristin Mowry. If I  
14 could, maybe because I'm the only female panelist, I  
15 won't have to identify myself before I speak every  
16 time. But if I could speak briefly to one of the end  
17 uses that we have not talked about very much here  
18 today.

19 I'll refer you to the confidential exhibit  
20 14 of our brief. What I can say publicly is the  
21 information that you all have on the record regarding  
22 the domestic furniture manufacturing industry shows  
23 quite clearly that what the domestic furniture  
24 manufacturers is purchasing is U.S. hardwood plywood  
25 or U.S. softwood plywood that is not PS 109 rated.

1           And I can only refer you to the rest of that  
2 exhibit for more information, but that is one end use  
3 that the Petitioners have identified as a major end  
4 use. And it's stark that we don't more information on  
5 the record.

6           MR. WEAVER: This is Bill Weaver. If I can  
7 address that from the user's standpoint. Quality is a  
8 subjective thing. You need to put some flesh around  
9 that to really know that you're talking about in  
10 quality.

11           There are different uses, different  
12 construction methods and different uses relative to  
13 terms of problems with either one of them. We get  
14 about equal problems with domestic that we do with  
15 foreign.

16           However, the problem is different. Usually  
17 with domestic, the problem will be with the veneer and  
18 with import, it will be in the core. But relative to  
19 saying does one have more problems than the other,  
20 over the span of time, that's just different.

21           MR. BENDIX: Commissioner, Pete Bendix  
22 again. I would agree with Bill that quality is  
23 definitely subjecting in this contest. For us a  
24 quality panel, for the laminate interior panel is one  
25 with a thin veneer that laminates so well.

1           And also a panel that is stable. To us,  
2 that defines the definition of quality for that panel.

3       On the other hand, it would fail miserably for how  
4 we're using the domestic panels. It would not finish  
5 well, it should not lend itself to be sanded well.

6           So, in the context of these finished panels  
7 or these fancy panels, the definition is different for  
8 quality. There, we're looking for a thicker veneer, a  
9 good quality veneer, aesthetically pleasing veneer,  
10 and one that finishes up so nicely as you're looking  
11 at it. Agree that it's subjective and different  
12 depending on the context of the party.

13           COMMISSIONER JOHANSON: Thank you for your  
14 response. I just noticed, we have some very nice wood  
15 up here. I might ask you all when this is done, what  
16 it's made of. I'm kind of curious. Getting back on  
17 our topic of today, are imports from non-subject  
18 countries substitutable with subject imports?

19           MR. ROGERS: This is Tom Rogers. I'll kick  
20 it off just from a data perspective and I think you've  
21 seen the market shares. I think Petitioners refer to  
22 a negative photo effect I believe when they're talking  
23 about other elements.

24           But we've seen that in the chart I provided  
25 showing the market shares and you'll see the subject

1 and non-subject going in opposite directions. I think  
2 that's the first thing you can look at. But as to the  
3 specific product interchangeability. The cabinet  
4 manufacturers can talk about that.

5 MR. SIMON: If I can add to get a little bit  
6 beyond the cabinet industry with your question. The  
7 products are directly substitutable from non-subject  
8 countries to the subject country in so many  
9 applications.

10 Underlayment is one of them. When I started  
11 off my career, we imported a lot of thin panel 4.8 mm  
12 plywood from Indonesia and Malaysia that was sold  
13 throughout this country for use as underlayment.  
14 Today we do that from China.

15 That's a product that the domestic  
16 manufacturers, as I mentioned earlier, don't make in  
17 any kind of volume. The sample that they showed you  
18 was an MDF. That's not a product that you would use  
19 in underlayment as an example.

20 So they'll directly substitute. The same  
21 thing would apply in the market that uses it for RV  
22 manufacturing. Where they're using quarter-inch  
23 plywood that was previously from a non-subject country  
24 to laminate papers too.

25 The same thing would in thicker panels, that

1 they would do the same thing to for their production  
2 scheme. It transcends to all categories. So it's  
3 import to import and it's non-subject to subject is  
4 what it is.

5 MR. WILKINSON: Sir, this is Gregg  
6 Wilkinson. I'm going to add that my company, Liberty  
7 Woods International, we carry both interchanging  
8 Southeast Asia and Chinese.

9 COMMISSIONER JOHANSON: Thank you. That  
10 answers my question. As you all know, the issue of  
11 non-subjects and the way they have moved in the market  
12 is of interest to us. So I appreciate your responses.

13 I have just one more question. Page 21 of  
14 the public version of the staff reports indicates that  
15 most U.S. produced hardwood plywood is sold  
16 unfinished. Is this also true of subject imports from  
17 China?

18 MR. WILKINSON: It's UV finished or non-UV  
19 finished. Speaking for my company and I think for the  
20 industry, the vast majority of imports come in  
21 unfinished as well. They do have the capability to  
22 UV finish in China. That is done, but in a much  
23 smaller proportion than what comes in raw or  
24 unfinished.

25 COMMISSIONER JOHANSON: Who finishes them

1 then, the cabinet producers, manufacturer?

2 MR. WEAVER: This is Bill Weaver. In our  
3 case, we have a company the panel goes to here in the  
4 States, and they actually do the finishing for us.

5 COMMISSIONER JOHANSON: I guess that makes  
6 sense because during shipment, they may get damaged;  
7 is that part of the issue?

8 MR. WEAVER: Possibly. And we feel that we  
9 get a higher quality UV finish here than we would in  
10 China.

11 COMMISSIONER JOHANSON: That concludes my  
12 questions. I'd like to thank you all for appearing  
13 here today. I found your responses very informative.  
14 Thanks again.

15 CHAIRMAN WILLIAMSON: Thank you.  
16 Commissioner Broadbent?

17 COMMISSIONER BROADBENT: Yes, I think I'm  
18 pretty much finished. I just wanted to give you a  
19 chance to put in perspective some of the testimony  
20 that we got this morning from the purchasers, Mr.  
21 Roberts and Mr. Awalt, who said they didn't really  
22 need any imported product.

23 And they were much more comfortable sourcing  
24 domestically. I take it your perspective on the  
25 market is you need the different sources for different

1 uses. But could you kind of put in perspective why  
2 you think they have that perspective. It's kind of  
3 unusual that they would come and say we don't need any  
4 imports at all.

5 MR. GRIMSON: I'll first address Mr.  
6 Roberts, \$25,000 conference tables, \$90,000 apartment  
7 room floors. That is a market where it's not a big  
8 surprise they don't want Chinese.

9 I think it was pretty clear from his  
10 testimony that it might not be only product reasons  
11 why he's not buying from China. If you go to China 10  
12 years ago and go to one factory and write off the  
13 whole country, it's really not, I don't think it's  
14 fair to, the way all these folks produce, to say that  
15 the Chinese quality is always at rock bottom.

16 But on the other hand, nobody is going to  
17 want a three-inch thick conference room table for  
18 \$25,000 made out of Chinese plywood. Clearly not. As  
19 for the store fixture market, I guess during the  
20 original testimony, I thought he sounded an awful lot  
21 like one of our witnesses saying they like to use  
22 domestic on the fancy faces and the visible parts, and  
23 had relegated the Chinese import product to the non-  
24 visible sides. And then getting out of the Chinese  
25 product altogether.

1           MR. SIMON: If I can add to that. This is  
2 Greg Simon. Our main customer base is wholesale  
3 distributors in the United States. We sell a wide  
4 variety of import products to this customer base.

5           Mr. Roberts has chosen a very high-end niche  
6 in the product that he carries, Italian poplar,  
7 Russian birch, other import sources, particle board  
8 from Canada.

9           He showed you his Web site. I think all  
10 those products are there. Bending board from South  
11 America. I know that one of the Petitioners makes  
12 bending board, one of the domestic petitioners may  
13 judge he could purchase it from them.

14           But he's electing to purchase it from South  
15 America according to his Web site. So there's a lot  
16 of reasons why someone might choose to carry that.  
17 He's choosing to carry certain items and that's his  
18 niche that he's serving at the high end of the market.

19           COMMISSIONER BROADBENT: Okay. Well, I want  
20 to thank the witnesses for all the time and the  
21 preparation you took to come here today. It was very  
22 helpful. Yes, Mr. Bendix.

23           MR. BENDIX: Commissioner, if I could make  
24 one more added.

25           COMMISSIONER BROADBENT: Sure.

1           MR. BENDIX: I think that was the same  
2 discussion where the reference of the environment, if  
3 you will, of the Chinese mills were being discussed.  
4 And though I don't doubt that that was or was not the  
5 experience, I can tell you that the manufacturing  
6 facilities that we work in and source from, again  
7 we're supplying to Japanese markets and Europeans  
8 before we even started bringing in from the United  
9 States.

10           It's also my understanding that Japanese  
11 regulations are the tightest formaldehyde standards in  
12 the world, followed by, my understanding, the European  
13 E-zero standards, which our new CARB standards are  
14 just slightly higher than that. So they were  
15 complying with the tightest standards in the world  
16 before we even started sourcing from that.

17           So our experience would be -- couldn't be  
18 more different than the ones we heard about this  
19 morning.

20           COMMISSIONER BROADBENT: Okay. Thank you.  
21 I appreciate all your time. Thanks a lot.

22           CHAIRMAN WILLIAMSON: Do any other  
23 Commissioners have questions for this panel?

24           (No response.)

25           CHAIRMAN WILLIAMSON: Does staff have any

1 questions for this panel?

2 MR. McCLURE: Jim McClure, Office of  
3 Investigations. Ms. Hughes from the General Counsel's  
4 Office has a question.

5 MS. HUGHES: Following up on the line of  
6 questioning by Commissioner Aranoff regarding the  
7 thinner veneer product, if in your post-hearing brief  
8 you could actually state what applications the thinner  
9 veneers used in -- excuse me -- and why, whether it's  
10 for cosmetic reasons or weight, and define what you  
11 mean by the thinner veneers. That would be helpful.

12 And if Petitioners could respond to this, to  
13 the extent they may want to, we'd appreciate that as  
14 well. Thank you.

15 CHAIRMAN WILLIAMSON: Thank you. Do  
16 Petitioners have any questions for this panel?

17 MR. LEVIN: Mr. Chairman, no, we do not.

18 CHAIRMAN WILLIAMSON: Okay. It's time for  
19 closing statements. Petitioners have five minutes  
20 total for closing, and Respondents have five minutes  
21 total for closing.

22 So I want to thank this panel for their  
23 testimony. We appreciate very much your taking time  
24 to come, and we'll ask you to take your seats at the  
25 back, and then we'll have closing statements.

1 (Pause.)

2 CHAIRMAN WILLIAMSON: I thought you were  
3 going to sit here, and I wanted to make sure that I  
4 wasn't -- no. I just wanted to -- no. It's okay.  
5 Wherever you want is fine. Okay. Thanks.

6 MALE VOICE: Is that okay?

7 CHAIRMAN WILLIAMSON: That's fine, yeah.  
8 You may begin when you're ready.

9 MR. LEVIN: Thank you, Mr. Chairman. Thank  
10 you, Commissioners. I don't think I will need to take  
11 all five minutes, but I tend to be long-winded, so  
12 perhaps.

13 I'm left with a little -- well, actually, a  
14 lot of confusion by some of the things that were said  
15 this afternoon. First of all, from the get-go we have  
16 seen and heard from the AAHP in particular that it's  
17 going to be an absolute disaster for the kitchen  
18 cabinet industry if orders are issued as a result of  
19 these investigations.

20 Notwithstanding a rather legal issue of the  
21 relevance of that to the Commission's determination,  
22 what I heard very clearly this afternoon is that  
23 imports from third countries are directly  
24 substitutable with Chinese imports. So to the extent  
25 that they're concerned about where they're going to

1 get raw material supplies from if an order is issued,  
2 and if they just don't want to pay a fair price for  
3 the Chinese imports, then apparently they can go to  
4 third countries, which are at this point considered  
5 fairly traded.

6 So for all the arguments that they've been  
7 making in press releases and et cetera, that pretty  
8 much seems to be the answer to their problem.

9 Second, up to about 3:30 this afternoon,  
10 their case was largely based on the uniqueness of the  
11 thin face veneers and the thin thickness of the  
12 plywood. And now we heard that it may really have a  
13 lot to do with the core with the product. So I'm not  
14 quite sure where at this point their primary argument  
15 lies. Where is the uniqueness of the product? And  
16 maybe that has something to do with the fact that we  
17 heard testimony this afternoon that the kitchen  
18 cabinet manufacturers are beginning to see some really  
19 nice cabinets coming in from China, which leads me to  
20 wonder, where does the wood come from that they're  
21 making these really nice cabinets from if all they  
22 have access to domestically, Chinese producers I mean,  
23 are these, you know, thin-diameter eucalyptus and  
24 poplar trees.

25 And that has a lot to do, I believe, with

1 the fact that, yeah, they did a very nice job of  
2 explaining how by the nature of the eucalyptus -- and  
3 I think they referred to Chinese birch and poplar  
4 trees as well. Because they're small diameter, they  
5 have to pin -- they have to peel into very thin  
6 veneers.

7 Well, that may be true to some extent  
8 concerning their wood import -- input raw materials.  
9 But I also note that there is about \$252 million of  
10 hardwood logs that are exported from the U.S. to  
11 China. China, by the way, very cleverly has a zero  
12 percent duty on those raw material inputs.

13 So you have a huge amount of logs that are  
14 being exported to China. Presumably a good portion of  
15 that is going into this product, other wood products  
16 as well, but I'm sure hardwood plywood, let alone  
17 products that may be coming over the Siberian border.

18 Also, I have to say there is two things that  
19 really sort of bother me. First of all, there was  
20 references made by Mr. Weaver of Canyon Creek about  
21 never being able to get a quote once the petition was  
22 filed from the domestic manufacturers while he was  
23 looking for possible alternative supplies. That's not  
24 true. That's just not true.

25 I have two companies at the witness table

1 that have actually provided quotes to him. I think  
2 what Mr. Weaver may have been referring to is being  
3 able to get quotes at price levels that he had  
4 previously enjoyed.

5 Another point. I understand that the  
6 Chinese producers don't like the fact that we filed a  
7 petition. I understand, I appreciate, I'm even sort  
8 of empathetic to some of the business model  
9 difficulties this may present to cabinet  
10 manufacturers. But what I'm hearing is the next best  
11 thing to a direct accusation that the domestic  
12 manufacturers have done this in order to form a  
13 monopoly or an oligarchy on the marketplace.

14 That's a pretty strong accusation. And  
15 without some documentation that that's the motivation,  
16 I take objection to it. And thank you. I guess I did  
17 use the five minutes.

18 CHAIRMAN WILLIAMSON: Yes, you did.

19 MR. LEVIN: We respectfully submit the facts  
20 in evidence support an affirmative determination.  
21 Thank you very much.

22 CHAIRMAN WILLIAMSON: Okay. Thank you.

23 Mr. Grimson?

24 MR. GRIMSON: Thank you very much, Mr.  
25 Chairman and commissioners. You heard a tale of two

1 worlds today. We do not think that you have a  
2 difficult decision in this case, though, because the  
3 facts back up our explanation of the market and not  
4 the Petitioners.

5 Let's review why. First, let's talk about  
6 the condition of the domestic industry. Did you see a  
7 chart that listed all the statutory factors and  
8 showing which way they're trending from the  
9 Petitioner's side? No. And why not? Because that  
10 chart is not very good for them. The best that we  
11 could see today was some complicated comparison of the  
12 depreciation and capital expenditures, which, by the  
13 way, still went up during the period of investigation.

14 So we submit you can stop at step one. This  
15 is not an injured industry. And I disagree that you  
16 should try to sift through every particle of data in  
17 this case to find masked injury. I don't think that  
18 the statute instructs you to go that far seeking out  
19 injury where there isn't any supported by the record.

20 Second, if the domestic industry is injured,  
21 did the subject merchandise cause that injury? And  
22 again we would say no. Under the but-for standard,  
23 definitely not. And this goes to the product  
24 differentiation that you heard about today.

25 You heard why that product differentiation

1 from those logs that you can see on the table and had  
2 a chance to observe throughout the day, and why that  
3 naturally leads to the way you processed the products  
4 and how that goes into very specific product  
5 characteristics. And we think the record absolutely  
6 supports that there is a hard line at .4 millimeters,  
7 and the Petitioners do not make anything below that  
8 line. And look at what Chinese volume is below that  
9 line.

10 And so an example of a piece of veneer  
11 sliced to .25 millimeters that we saw here today,  
12 where was that in table D3 that was submitted with the  
13 product thicknesses? When I looked at that today  
14 during Petitioner's testimony in the public version,  
15 what percentage of your product is below .4  
16 millimeters? Every year, 0.0 percent.

17 You heard from the cabinetmakers that that  
18 difference is actually extremely important to them,  
19 and that they spec out product to go in certain places  
20 and certain end uses based on whether it's an import  
21 product with a thin-face veneer or a domestic product  
22 with a thick, fancy face veneer.

23 The Petitioners do what they do very well,  
24 and there isn't a substitute for them. The only check  
25 on the Petitioner's pricing is each other.

1           Why should you care about these  
2 cabinetmakers and their jobs? First, as a condition  
3 of competition, they represent the single largest  
4 group of customers for both the Petitioners, the  
5 domestic industry, and the Respondents. For this  
6 reason, their testimony as to the purchasing decisions  
7 is a vital part of your record, and you don't have to  
8 listen to lawyers or importers when you have three  
9 plus fourth written testimony that we submitted on the  
10 record vouching for this fact.

11           There was no cabinet industry witness here  
12 today on the Petitioner's panel. And the cabinet  
13 industry is huge, and they are dreadfully worried  
14 about their jobs being shipped overseas and having to  
15 compete with third-country supplies of cabinets that  
16 do get the Chinese plywood that is ideal for what they  
17 want.

18           Congress created the injury standard as a  
19 filter to weed out cases that do not merit  
20 extraordinary government intervention in the  
21 marketplace, and for this standard to have any  
22 meaning, it's reasonable to think there is some cases  
23 that don't meet it. And you have each been placed on  
24 the Commission because of your expertise and ability  
25 to sift through the data to get to the truth. And the

1 Commission is absolutely not a rubber stamp for every  
2 petition that comes along, even if it has the word  
3 China it.

4 And I'm sorry to say that there are people  
5 in this room who are still reeling from the Commerce  
6 Department final antidumping margins that were  
7 released yesterday. And to these folks and others  
8 outside the Beltway, Commerce invented those margins  
9 out of whole cloth with a clear bias towards the  
10 Petitioners. And it's outrageous to them. And I want  
11 them to know that this body, the ITC, is not a  
12 political animal, that you'll make your decision on  
13 the merits. And there are people in this room who  
14 truly believe that the government is out to kill their  
15 jobs. And I think you heard that in our testimony  
16 today.

17 You are the only ones standing between them  
18 and the decline of the U.S. cabinet industry, and for  
19 what you heard testimony that the hardwood -- no  
20 additional domestic hardwood plywood will be sold.

21 So on behalf of my clients, we ask you to  
22 take a fair look at the record and the testimony you  
23 heard today from both sides, and we think that when  
24 you do, you'll find that there is no injury in this  
25 case and will terminate this case before it slays the

1 domestic cabinet industry. Thank you very much.

2 CHAIRMAN WILLIAMSON: Okay. Thank you.

3 Closing statement. Post-hearing briefs, statements  
4 responsive to questions and requests of the  
5 Commission, and corrections to the transcript must be  
6 filed by September 25th, 2013. Closing of the record  
7 and final release of data to parties, October 18th,  
8 2013. Final comments are due by October 22nd, 2013.

9 And I want to again thank all of the  
10 witnesses who participated in today's hearing, and the  
11 hearing is adjourned. Thank you.

12 (Whereupon, at 5:20 p.m., the hearing in the  
13 above-entitled matter was adjourned.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Hardwood Plywood from China  
**INVESTIGATION NO.:** 701-TA-490 and 731-TA-1204  
**HEARING DATE:** September 19, 2013  
**LOCATION:** Washington, D.C.  
**NATURE OF HEARING:** Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: September 19, 2013

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: Rebecca McCrary  
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: Kyle Johnson  
Signature of Court Reporter