

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:) Investigation Nos.:
VERTICAL METAL FILE CABINETS FROM CHINA) 701-TA-623 AND 731-TA-1449
) (FINAL)

Pages: 1 - 93
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UNITED STATES OF AMERICA
BEFORE THE
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF:) Investigation Nos.:
VERTICAL METAL FILE CABINETS) 701-TA-623 AND 731-TA-1449
FROM CHINA) (FINAL)

Tuesday, October 8, 2019
Main Hearing Room (Room 101)
U.S. International Trade
Commission
500 E Street, SW
Washington, DC

The meeting commenced pursuant to notice at 9:31
a.m., before the Commissioners of the United States
International Trade Commission, the Honorable David S.
Johanson, Chairman, presiding.

1 APPEARANCES:

2 On behalf of the International Trade Commission:

3 Commissioners:

4 Chairman David S. Johanson (presiding)

5 Commissioner Rhonda K. Schmidtlein

6 Commissioner Jason E. Kearns

7 Commissioner Randolph J. Stayin

8 Commissioner Amy A. Karpel

9

10

11

12 Staff:

13 William R. Bishop, Supervisory Hearings and Information

14 Officer

15 Tyrell Burch, Management Analyst

16 Sharon Bellamy, Records Management Specialist

17

18 Joshi Nitin, Investigator

19 Karl Tsuji, International Trade Analyst

20 Pamela Davis, International Economist

21 David Boyland, Accountant/Auditor

22 Karen V. Driscoll, Attorney/Advisor

23 Nathanael N. Comly, Supervisory Investigator

24

25

1 Opening Remarks:

2 Petitioner (Kathleen W. Cannon, Kelley Drye & Warren LLP)

3

4 In Support of the Imposition of Antidumping and

5 Countervailing Duty Orders:

6 Kelley Drye & Warren LLP

7 Washington, DC

8 on behalf of

9 Hirsh Industries, LLC

10 Thomas Bailey, President and Chief Executive Officer,

11 Hirsh Industries, LLC

12 Brandon Wetterberg, Director of Product Management,

13 Hirsh Industries, LLC

14 Dave Jensen, Vice President, Sales, Hirsh Industries,

15 LLC

16 Michael T. Kerwin, Assistant Director, Georgetown

17 Economic Services, LLC

18 William B. Hudgens, Senior Trade Analyst, Georgetown

19 Economic Services, LLC

20 Kathleen W. Cannon, R. Alan Luberda and Joshua R. Morey

21 - Of Counsel

22

23 Closing Remarks:

24 Petitioner (Kathleen W. Cannon, Kelley Drye & Warren

25 LLP)

I N D E X

1		
2		Page
3	Opening Remarks:	
4	Petitioner (Kathleen W. Cannon, Kelley Drye & Warren LLP)	
5		6
6		
7	Thomas Bailey, President and Chief Executive Officer, Hirsh	
8	Industries, LLC	10
9		
10	Brandon Wetterberg, Director of Product Management, Hirsh	
11	Industries, LLC	17
12		
13	Dave Jensen, Vice President, Sales, Hirsh Industries, LLC	
14		22
15		
16	Kathleen W. Cannon, Kelley Drye & Warren, LLP	24
17		
18	Closing Remarks:	
19	Petitioner (Kathleen W. Cannon, Kelley Drye & Warren	
20	LLP)	91
21		
22		
23		
24		
25		

P R O C E E D I N G S

(9:31 a.m.)

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2
3 MR. BURCH: Will the room please come to
4 order?

5 CHAIRMAN JOHANSON: Good morning. On behalf
6 of the U.S. International Trade Commission, I welcome you to
7 this hearing on the final phase of Investigation No.
8 701-TA-623 and 731-TA-1449, involving Vertical Metal File
9 Cabinets from China. The purpose of these final
10 investigations is to determine whether an industry in the
11 United States is materially injured or threatened with
12 material injury, or the establishment of an industry in the
13 United States is materially retarded by reason of imports of
14 vertical metal file cabinets from China.

15 Schedules setting forth a presentation of this
16 hearing, Notice of Investigation and transcript order forms
17 are available at the public distribution table. All
18 prepared testimony should be given to the Secretary. Please
19 do not place testimony directly on the public distribution
20 table. All witnesses must be sworn in by the Secretary
21 before presenting testimony. I understand that parties are
22 aware of their time allocations. Any questions regarding
23 the time allocations should be directed to the Secretary.

24 Speakers are reminded not to refer their
25 remarks or answers to questions to business or proprietary

1 information. Please speak clearly into the microphone and
2 state your name for the record for the benefit of the court
3 reporter and for those seated in the back of the room. If
4 you will submitting documents that contain information you
5 wish classified as Business Confidential, you are requested
6 to comply with Commission Rule 201.6. Mr. Secretary, are
7 there any preliminary matters?

8 MR. BURCH: There are no preliminary matters.

9 CHAIRMAN JOHANSON: Very well. Let us begin
10 with the opening remarks.

11 MR. BURCH: Opening remarks will be given by
12 Kathleen Cannon of Kelley Drye Warren. Ms. Cannon, you have
13 five minutes.

14 PETITIONER'S OPENING REMARKS

15 MS. CANNON: Good morning Chairman Johanson
16 and members of the Commission. I am Kathleen Cannon of
17 Kelley Drye, appearing today on behalf of the Petitioner,
18 Hirsh Industries. Hirsh is the largest manufacturer of
19 vertical metal file cabinets in the United States. It
20 operates a highly automated and efficient production
21 operation in Dover, Delaware, as your staff observed on a
22 recent plant tour.

23 Hirsh takes pride in the quality of its
24 product and in the innovations it has developed and
25 implemented. Despite its efficient operations, Hirsh and

1 other U.S. producers of vertical files have been
2 increasingly unable to compete with the unfairly low-priced
3 imports from China, leading to the devastating declines the
4 industry has suffered in recent years.

5 The product at issue in this case, vertical
6 filing cabinets, is a product you likely have in a room here
7 at the Commission. We have quite a few of them in our law
8 office. The files are used for filing and storing
9 documents, and permit ready retrieval of those documents.
10 As you have seen in other cases involving fabricated steel
11 products, the Chinese producers are able to manufacture
12 products that are interchangeable with the U.S. product, and
13 that meet the specifications of U.S. customers.

14 But they price these products at absurdly low
15 levels in an attempt to gain U.S. market share. This
16 price-based competition has taken a heavy toll on the
17 domestic industry producing vertical files. As your staff
18 report shows, imports of vertical files from China have
19 surged into the U.S. market from 2016 and 2018, and to
20 continue to increase in the first half of 2019.

21 That surge has come largely at the expense of
22 the domestic industry. While the domestic industry held the
23 largest share of the U.S. market in 2016, by 2018 China had
24 surpassed the United States to become the largest supplier.
25 As Chinese imports grew, U.S. shipments were displaced on a

1 one for one basis. This rapid increase in market
2 penetration by China was accomplished by pervasive
3 underselling. Underselling by China occurred in the vast
4 majority of comparisons on both a quarterly basis and on a
5 volume basis.

6 This rampant underselling has caused U.S.
7 producers to lose sales, and has placed pressure on U.S.
8 producer prices. Domestic producers could not increase
9 prices to cover their rising costs due to the lower-priced
10 competition from China. There a relatively small number of
11 major purchasers of vertical files in the United States, so
12 losing any account is significant.

13 In 2018, Hirsh lost a major account to unfair
14 imports from China that undercut its price, leading to
15 significant trade and financial declines. Even those
16 accounts that remained loyal to Hirsh pressured its pricing,
17 as they are aware of competing offers from China.

18 Nor is the Hirsh the only U.S. producer
19 experiencing these problems, as U.S. producer questionnaire
20 responses show. The declines in the overall industry's
21 trade and financial performance since 2016 have been severe.
22 Production and shipments have dropped, workers have lost
23 jobs and profitability has plummeted.

24 Capacity utilization in the industry is at an
25 appalling low level. As subject imports hit their market

1 share peak in interim 2019, the U.S. industry's market share
2 fell to its lowest level, and the industry suffered its
3 worst financial performance. The causal nexus between the
4 subject imports and the industry's injury is compelling. No
5 other factor explains this injury.

6 Demand for vertical files since 2016 has been
7 strong and increasing. While the world may be moving slowly
8 to digital storage, that has not affected sales of vertical
9 files in recent years. This increasing demand should have
10 allowed U.S. producers to increase production and shipments,
11 but the opposite happened.

12 Non-subject imports are not the cause of harm.
13 Those are declining and losing market share to the subject
14 imports too. The Section 232 tariffs on steel led to
15 increased import cost, but it was the competition from China
16 that prevented the domestic producers from raising their
17 prices to cover those costs.

18 As soon as preliminary anti-dumping and
19 countervailing duties were imposed and the unfair pricing
20 was remedied, Hirsh was able to increase its prices to cover
21 these costs. The Section 301 tariffs on imports from China
22 are not a solution to this problem. Those tariffs were
23 imposed in September of 2018, but the imports from China
24 increased even further in the first half of 2019.

25 Relief is badly needed to prevent the vertical

1 files industry from becoming yet another in a long line of
2 U.S. industries that have gone out of business due to
3 unfairly traded imports from China. Thank you.

4 MR. BURCH: Will those in support of the
5 imposition of anti-dumping and countervailing duty orders
6 make their way forward and be seated? I would like to note
7 this panel has 60 minutes for their direct testimony.

8 (Pause.)

9 MR. BURCH: Also Mr. Chairman, I would like to
10 note all witnesses on this panel have been sworn in.

11 CHAIRMAN JOHANSON: Thank you. You all may
12 begin whenever you're ready.

13 STATEMENT OF THOMAS BAILEY

14 MR. BAILEY: Good morning. My name is Tom
15 Bailey, and I am the president and CEO of Hirsh Industries,
16 LLC. Hirsh is the largest producer of vertical files in the
17 United States. We have a substantial production facility in
18 Dover, Delaware, and our corporate headquarters are located
19 in West Des Moines, Iowa, which is where our precursor
20 company got its start nearly a century ago in 1924.

21 Hirsh has made a commitment to being an
22 efficient producer of vertical files. We have made major
23 capital investments in order to automate a large portion of
24 our production processes. As a result of these efforts, we
25 believe that our Dover location is the most efficient

1 facility producing vertical files in the world.

2 We know that the Chinese industry does not
3 have a production advantage over us, and we should readily
4 be able to compete with China in our own home market. This
5 has not proven to be the case. Over the last three and a
6 half years, we have seen Chinese imports dramatically
7 undercut our prices, and seem disconnected from the actual
8 cost to produce the product. As a result, these imports
9 have taken large sales volumes from us, and have held down
10 prices in the U.S. market during a time of rising raw
11 material cost.

12 Vertical files are highly interchangeable
13 regardless of their manufacturer or country of origin, so
14 price drives sales. While vertical files are sometimes
15 produced to an individual customer specifications, these do
16 not vary significantly. Most Chinese vertical file
17 producers are capable of meeting U.S. customer
18 specifications. In fact, Chinese producers have produced
19 prototypes of our Hirsh products to physically demonstrate
20 to our customers that that they can meet our exact
21 specifications. Unfortunately, they do so at a substantial
22 discount compared to Hirsh's pricing.

23 There are a relatively small number of
24 purchasers that account for the vast majority of purchases
25 of vertical files in the U.S. market. Concentration of the

1 purchaser base has increased in recent years, with a notable
2 development occurring at the beginning of 2019. A major
3 retailer of office supplies purchased or merged with one of
4 the distributors of office supplies.

5 This concentration of purchasers has affected
6 market prices as a company almost immediately sent out an
7 announcement that it expected suppliers to significantly
8 reduce prices. Early in 2018, Hirsh lost nearly all of its
9 sales of vertical files at one of the major U.S. office
10 products retail accounts to imports from China. This
11 customer switch was done strictly on the basis on price.
12 While we were given no advance notice of this change, we
13 were later told expressly that the Chinese imports are
14 priced well below Hirsh's products.

15 Because of this customer size, that lost sale
16 has had a devastating impact on Hirsh's sales and
17 profitability on vertical files. Due to the intense level
18 of competition in the marketplace and common knowledge among
19 purchasers of the prices being offered on Chinese imports,
20 the move by this major account to source its vertical files
21 from China has resulted in price pressures at essentially
22 all of our other large accounts.

23 Even accounts that have remained loyal
24 customers to date have explored their options in potentially
25 sourcing their vertical files from China. Thus, they have

1 firsthand knowledge on the pricing being offered on the
2 Chinese imports. We work hard to keep our customers happy
3 and provide a high level of service. In fact, Hirsh won a
4 highly coveted award in March of this year presented by one
5 of our largest customers, a market-leading distributor in
6 North America, for outstanding service across all of their
7 product categories.

8 We were voted their top overall supplier out
9 of over 400 total suppliers. But good relationships with
10 customers do not prevent them from placing pricing pressure
11 on us in our sales negotiations on vertical files. Frankly,
12 we understand why they place these pressures on us, because
13 they are facing similar price competition themselves. Their
14 ultimate customers see the prices that can be offered by
15 office supply dealers on online retailers that are buying
16 low-priced Chinese imports.

17 Our customers have no option but to come close
18 to those prices if they want to continue to make sales of
19 vertical files. To make that happen, they in turn pressure
20 us to reduce our prices or, when costs increase, not to
21 increase our prices. So price pressures from Chinese
22 imports affect our sales even at accounts that continue to
23 purchase from Hirsh.

24 These developments are not sustainable. As
25 you can see in the data reported by our company, the

1 increasing volumes of low-priced imports from China have
2 caused Hirsh to suffer major declines in production,
3 capacity utilization, production workers and shipments.
4 We've been facing stiff price competition from Chinese
5 imports for a number of years, with China undercutting our
6 prices and causing us to lose sales and profits.

7 For example, in early 2017 we were pressured
8 to forego a contractually agreed upon price increase related
9 to raw material costs due to competition from Chinese
10 imports. I note that this was even before the Section 232
11 tariffs were imposed on steel products. As our raw material
12 costs increased further in 2018 and 2019, we remained unable
13 to increase prices to cover our costs due to the
14 underselling by Chinese imports.

15 The result has been the significant erosion of
16 our profitability. Notably, our company showed an operating
17 loss in the first half of 2019. Customers aren't willing to
18 accept price increases when Chinese imports are maintained
19 or even reducing prices, seemingly without any connection to
20 their underlying costs. Just last year, we attempted to get
21 a price increase with one of our customers in order to cover
22 rising input costs.

23 This customer responded that they weren't
24 accepting any price increases, and that the buyer, who would
25 make the ultimate decision, was actually traveling in China.

1 Purchasers know well that prices are being offered by the
2 Chinese producers and they use that knowledge to suppress
3 Hirsh's prices. The ten percent duties that were imposed on
4 imports of metal file cabinets under Section 301 in
5 September of 2018 did not allow us to gain back any market
6 share or get prices up to cover costs.

7 Later, even when the President announced an
8 increase in 301 tariffs to the 25 percent level, there was
9 no real impact in the marketplace. We received no new
10 inquiries for vertical files as a result of that change. It
11 was only after the preliminary determination by the Commerce
12 Department in this case in July of this year that a customer
13 previously buying from China returned to buying large
14 quantities from Hirsh. Only then did we have some success
15 in increasing prices to reflect our higher cost as well.

16 Hirsh Industries is not a large, diversified
17 company. Our vertical metal file cabinets account for the
18 largest volume of all the products we sell, and office
19 storage solutions are the foundation of our company. We do
20 not have other divisions that can help to bring up the
21 overall profitability of our company, or other markets to
22 see us through the tough times with vertical files.

23 Our company really lives and dies based on
24 this product's success, so we cannot sustain any lengthy
25 period of operating losses on vertical files. Hirsh has

1 done a lot to keep our operations efficient and competitive.
2 We are an innovator in our market. As the Commission staff
3 saw in our plants here in Dover last month, we have made
4 substantial capital investments to streamline and automate
5 our production process to keep costs down.

6 We value our employees and encourage their
7 suggestions for methods to improve productivity. But these
8 efforts have not been sufficient to keep us from losing
9 market share to unfairly traded Chinese imports or from
10 being forced to sell our prices that fail to cover our
11 costs. We've heard that other U.S. producers have either
12 drastically cut back their production of vertical files or
13 exited the business entirely. We're proud of the fact that
14 we've been able to remain in the U.S. market for vertical
15 files, but without this case we cannot hold on for much
16 longer.

17 Final relief is needed to prevent unfair
18 imports from pouring in from China and displacing our sales.
19 We need an improvement in U.S. market pricing in order to
20 generate a reasonable return on our domestic operations. On
21 behalf of our company and our workers, I urge the Commission
22 to prevent the unfair imports from destroying our market and
23 to reach an affirmative determination in this investigation.
24 Thank you.

25 STATEMENT OF BRANDON WETTERBERG

1 MR. WETTERBERG: Good morning. My name is
2 Brandon Wetterberg, and I am the Director of Product
3 Management of Hirsh Industries, LLC. I've been employed by
4 Hirsh for 22 years. I have overlapping responsibilities for
5 product design, marketing, product engineering for Hirsh's
6 vertical files. I'd like to discuss with you the product
7 and industry that are the subject of this case, along with
8 the challenges we have faced trying to respond to the
9 unfair competition from imports of dumped and subsidized
10 vertical files from China.

11 I think everybody in this room probably has an
12 intuitive understanding of what a vertical file is. You've
13 seen them in the back office or storage area here at the
14 Commission. Vertical files are free-standing metal storage
15 units designed for the archival filing, organization and
16 ready retrieval of paper documents.

17 Consistent with this file storage and
18 retrieval purpose, vertical files have at least two
19 extendable drawers of a size that will allow for hanging
20 folders, to hold either 8-1/2 by 11 inch letter size
21 documents or 8-1/2 inch by 14 inch legal sized documents.
22 Thus, the cabinets are typically going to be around 14 to 18
23 inches wide.

24 Vertical files have a minimum of two file
25 drawers and come in models with up to five file drawers.

1 Four drawer vertical file, which is one of the most common
2 sizes, is about 52 inches tall. So you can see why they are
3 called vertical files by everyone in the industry. By their
4 very nature, they have a depth and height that are each
5 greater than or equal to the width of the unit. The tall,
6 narrow design provides for efficient document storage space
7 with a small footprint. These features distinguish
8 vertical files from other office storage units that you may
9 have also seen, such as lateral file cabinets or pedestal
10 storage units.

11 Lateral files are used for both documents and
12 general office storage. They are wider than they are deep
13 and therefore much wider than vertical files. Lateral files
14 typically have a width of 30 to 42 inches. This footprint
15 is generally not suitable for an office space requiring a
16 vertical file.

17 Lateral files also tend to be heavier duty to
18 hold more weight and are more complex and labor intensive to
19 build. The other metal office storage units that you may
20 have seen are known as pedestal cabinets. Pedestals are
21 flexible multi-purpose office furniture for storage of
22 personal belongings and other office supplies at the desk
23 side. Pedestal units are commonly not free-standing.

24 Rather than just serving as functional
25 document storage, pedestals are typically made to be office

1 furniture and to fit under, hang from or support a desk or
2 other work surface. Pedestals often have only one or even
3 no file size drawers. Instead, they have a number of
4 smaller drawers known as box drawers or pencil drawers. The
5 domestic industry, our customers and the industry
6 standard-setting entities all recognize vertical files as a
7 distinct product.

8 While Hirsh manufactures vertical files and
9 lateral files, they're produced on different equipment using
10 different manufacturing processes and different employees.
11 As Commission staff members who recently visited our Dover,
12 Delaware plant saw, Hirsh has dedicated production lines for
13 vertical files that are innovative, highly automated and
14 efficient.

15 These dedicated production lines and employees
16 are an important reason why this case is so critical to
17 Hirsh. We cannot readily turn to producing other products
18 on these highly specialized lines. So when Hirsh loses
19 sales of vertical files to low priced Chinese competition,
20 that capacity sits idle, our unit production costs increase
21 and our profitability suffers.

22 When Chinese vertical file cabinets started
23 arriving in the U.S. market in larger numbers, they did so
24 at prices substantially lower than Hirsh's pricing. Price
25 is singularly important in the purchasing decision given the

1 very low Chinese pricing. That focus on price has shifted
2 purchasers away from Hirsh and towards Chinese imports.

3 Over the last few years, our customers more
4 and more frequently shop for and compared our prices to
5 vertical files made in China. For example, one of our major
6 customers required us to send our product packaging to China
7 so they could create a merchandised plant-o-gram for their
8 vertical file offerings. This let the Chinese suppliers
9 know the shelf space for which they were competing for
10 vertical files and with whom they were competing.

11 Another major customers told us that one of
12 the major Chinese producers of vertical files already
13 supplying the U.S. market had a complete line-up of Hirsh's
14 vertical files and was prepared to quote prices for the
15 entire line. Losing the entire line of products of a major
16 customers would be devastating to our business.

17 We also know that our purchasers generally buy
18 vertical files directly from the Chinese manufacturers, not
19 through importer middlemen. These direct imports cut out
20 middle man expenses and make buying from China even cheaper.
21 This makes it more difficult for Hirsh to compete based on
22 price for sales to these producers.

23 I should emphasize that when we compete for
24 these sales, we have to compete directly against the low
25 prices offered by the Chinese producer. The significant

1 decline in sales we saw last year was the direct result of
2 customers shifting to low priced imports from China. This
3 left us with ample and increasingly idle capacity that we
4 have been unable to use due to the surge in unfairly traded
5 imports from China. You can see from our 2018 and 2019
6 results that we have suffered significant declines in U.S.
7 production, shipment and net sales.

8 The import competition from China not only
9 cost us volume, but has forced us to sell at prices that are
10 causing us to lose money. Our declining sales volume was
11 not the result of a declining market demand for vertical
12 files. Your staff report confirms Hirsh's experience that
13 demand has actually been strong over the last few years.

14 If we needed any more evidence that it was the
15 high volume of low-priced Chinese vertical file imports that
16 were harming our business, we got it soon after we filed
17 this case. Since the preliminary anti-dumping and
18 countervailing duties were imposed, we have secured price
19 increases with certain customers for sales in the fourth
20 quarter, and even received a significant purchase order from
21 a customer who previously bought most of its vertical files
22 from China.

23 If we do not receive the final relief we are
24 seeking, purchasers will quickly go back to sourcing
25 vertical files in China, and to demand even lower prices.

1 We sincerely hope that you will not allow that to happen.

2 Thank you.

3 STATEMENT OF DAVID JENSEN

4 MR. JENSEN: Good morning. My name is Dave
5 Jensen, and I am Vice President of Sales at Hirsh
6 Industries, LLC. I've worked at Hirsh for twenty years, and
7 I've been involved in the vertical files industry since
8 1999.

9 I'm briefly gonna discuss the role of online
10 retail sales in the vertical file market. Over the last
11 several years, internet sales have played an increasing role
12 in the vertical file market. Although Hirsh doesn't have
13 its own online retail presence, over 20% of Hirsh's sales
14 are through online retailers. This general trend towards
15 online retail sales has led to greater transparency and
16 prices in the U.S. market and has intensified competition
17 based on price.

18 Online retailers monitor one another, as well as
19 brick-and-mortar retailers, including those that source
20 vertical files from China in order to maintain competitive
21 prices. With prices being readily available online, the
22 prices of one supplier selling vertical files purchased from
23 a low-priced producer can quickly reverberate throughout the
24 market. We have seen volume migrate quickly from one online
25 seller to another based on price.

1 In fact, these prices also impact retailers in
2 their stores as well. Retailers that sell on the internet
3 and in brick-and-mortar will not sell at different prices.
4 This rapid price dissemination not only affects prices at
5 the retail level, but also Hirsh's price to the retailer.
6 If an online retailer sees a lower priced vertical file
7 being offered for sale online, that retailer will demand
8 that Hirsh lower its prices so the retailer can sell at
9 prices that are competitive in the market and still make
10 their margins.

11 In some instances, if Hirsh does not lower its
12 price pursuant to a retailer's demands, the product will be
13 removed from the retailer's online platform altogether. It
14 is important to note that many traditional brick-and-mortar
15 retailers have their own online platforms. In other words,
16 it's not just Amazon, Wayfair or other internet retailers,
17 whose prices are available online. Traditional
18 brick-and-mortar retailers like Office Depot and Staples
19 also sell online.

20 As a result, internet retail prices have a
21 wide-spread effect throughout the market. When low-priced
22 imports from China are bought by any company that advertises
23 vertical files for retail sale online, there's wide-spread
24 effects on other purchasers. These price effects, in turn,
25 exert a downward pressure on prices of suppliers like Hirsh.

1 This is why we've been pressured not to increase our prices,
2 even when our costs increase, so the retailer can maintain
3 their own competitive edge and profits.

4 Unless the unfair pricing by imports from China
5 is addressed, these damaging price effects on Hirsh and
6 other U.S. producers of vertical files will continue. Thank
7 you.

8 STATEMENT OF KATHLEEN W. CANNON

9 MS. CANNON: For the record, I am Kathleen
10 Cannon, and I will conclude our presentation by addressing
11 the statutory injury factors that demonstrate the domestic
12 vertical files industry has suffered material injury. You
13 should each have received a pink handout that contains
14 confidential charts I will be referring to in my testimony
15 today.

16 Chart 1 addresses the issue of negligibility. As
17 you see, and as reflected in the staff report, imports from
18 China well-surpassed the 3% statutory negligibility level in
19 the relevant twelve-month period.

20 Next the statutory factor of import volume. By
21 law, the Commission need only find that the imports are
22 significant on an absolute or relative basis, or are
23 increasing significantly, either absolutely or relatively.
24 Here, every one of those factors is met. Chart 2 shows how
25 sizeable imports from China are, relative to all other

1 imports in 2018.

2 As shown on Chart 3 on an absolute basis, the
3 import volumes from China are increasing rapidly. These
4 imports surged from 2016 to 2018 and then increased even
5 further in the first half of 2019 from first half of 2018
6 levels.

7 On a relative basis, these imports are also large
8 and growing, as you see in Chart 4. The actual numbers are
9 confidential, but I believe the word "sky-rocketed" does not
10 overstate this import growth and the penetration of the U.S.
11 market. This rapid and significant market penetration was
12 accomplished on the basis of price. As Mr. Bailey
13 testified, subject imports use low prices to gain sales.

14 Chart 5 summarizes findings based on purchaser
15 questionnaire responses regarding the interchangeability of
16 the Chinese and U.S. product and the importance of price in
17 purchasing decisions. As you see, the purchasers also
18 emphasized the importance of price in their buying
19 decisions.

20 When examining the adverse price effects of
21 subject imports here, there are a couple of important issues
22 to bear in mind as listed on Chart 6. First, the sourcing
23 of imports of vertical files like that of many other
24 fabricated steel products sold at retail, is generally done
25 on a direct-import basis. That means there is no middle-man

1 importer and the retailer imports the product directly for
2 sale in its stores to customers.

3 Why? Because it is cheaper to directly import
4 and avoid a middle-man markup, particularly if you are a
5 large retailer importing a lot of products. For that
6 reason, too, these direct-import sales are often the most
7 damaging to competing U.S. producers. Rather than facing
8 competition from a U.S. importer who has marked up the price
9 of the imported product, U.S. producers have to compete
10 directly against the price offered by the Chinese producer.
11 These prices are very low, which of course is why the U.S.
12 purchasers directly source from China.

13 The domestic producers are told by the retail
14 customers that their prices are too high, compared to what
15 they can get from China. So the U.S. producers lose sales
16 and have to cut prices to compete. Ignoring these prices in
17 this price competition would be tantamount to providing a
18 license to Chinese producers to dump in this market.

19 While the Commission has recognized the
20 importance of examining direct-import prices in some cases,
21 it has also expressed a hesitance to rely on them. The
22 staff report here goes so far as to say that the Commission
23 received no pricing data on China, even though you did
24 indeed receive pricing on direct imports. There should be
25 no hesitance to compare these direct import prices, which

1 are already adjusted to account for factors like ocean
2 freight and customs' duties, based on your questionnaire
3 instructions to the U.S. producer prices. No adjustment to
4 the direct-import prices should be made for logistical costs
5 reported by the direct importer. These logistical costs are
6 also incurred in purchasing the U.S. product. So you
7 already have an apples-to-apples price comparison.

8 The second point I want to make on the pricing
9 data is that the data in the staff report must be adjusted
10 to exclude some clearly out-of-scope product that was
11 mistakenly reported by one importer. We have already
12 alerted your staff to this error. The analysis presented in
13 our brief and in this handout corrects for that error.

14 Chart 7 sets forth the comparisons of U.S. prices
15 with the direct import prices adjusted to exclude the
16 nonsubject product. As shown, there is rampant underselling
17 by China in virtually all of the comparisons and on the vast
18 majority of the volume sold as well.

19 If there is any doubt as to whether underselling
20 shown in these comparisons is valid, take a look at what a
21 major importer told you as set forth in Chart 8. It
22 acknowledged it shifted to buying from a U.S. product to
23 buying the Chinese product. It acknowledged that the price
24 of the Chinese import was lower than the U.S. product. And
25 it acknowledged that price was a primary reason for it

1 buying from China. Based on these admissions, it is
2 difficult to dispute the price-based reason for the lost
3 sale and resultant injury.

4 As shown in Chart 9, this underselling has been
5 devastating to U.S. producers. At a time of rising costs,
6 U.S. producers could not come close to increasing their
7 prices to keep pace with the cost increases. Chart 9
8 depicts a classic case of price suppression.

9 If there's any doubt that it was the Chinese
10 import pricing that prevented U.S. producers from increasing
11 their prices, look at what the U.S. producers told you in
12 questionnaires. Those responses are quoted on Chart 10. As
13 you see, there are repeated references to the low-priced
14 imports from China as the cause of the price suppression.

15 The impact of the surging volumes of low-priced
16 imports from China has been devastating to the U.S.
17 industry. As Chart 11 shows, the domestic industry suffered
18 significant declines in all of its key trade variables.
19 Demand is growing, but the U.S. manufacturers are producing
20 and selling less because China took those sales by selling
21 at low dumped prices.

22 Workers have also been affected. And as shown in
23 Chart 12, those declines were not limited to the 2016 to
24 2018 period. They continued into the first half of 2019 as
25 well. Not only are the declines dramatic, the current

1 levels of these key performance indicators are
2 unsustainable.

3 Chart 13 shows how much of the domestic
4 industry's capacity is now sitting idle as it lost sales and
5 market share to China. The industry has ample supply
6 available, but cannot obtain sales because of competition
7 from low and unfair Chinese pricing.

8 Chart 14 depicts the plunge in the U.S.
9 industry's operating profits over this period. A plunge
10 that is stark with profits falling to an abysmal level by
11 interim 2019.

12 While Hirsh is the only petitioner here, other
13 U.S. producers have provided further examples of the
14 devastation their companies faced and have pointed to China
15 as the cause of those problems, as shown on Chart 15.

16 The causal nexus between the subject import surge
17 and the U.S. industry's injury is compelling. Chart 16
18 shows the market share gained by subject imports versus the
19 lost market share of the U.S. industry. As you see, all of
20 the market share loss of the domestic industry was to China.

21 Chart 17 depicts the surge in these low-priced
22 imports as also correlating with the domestic industry's
23 financial downturn. As subject imports surged to penetrate
24 an ever-larger percentage of the U.S. market, the domestic
25 industries' operating profit-to-sales ratio plummeted. No

1 other factor explains this rapid deterioration and the
2 industry's condition.

3 As shown on Chart 18, demand was growing, so it
4 did not cause injury. In fact, subject import volume growth
5 well out-paced demand growth. This not only prevented the
6 U.S. industry from increasing their shipments as demand
7 increased, but subject imports also took market share from
8 U.S. producers. Thus, the U.S. industry's shipments
9 declined despite the strong and growing U.S. market.

10 As Chart 19 shows, nonsubject imports were
11 declining over the period. They also lost market share to
12 China and are not the cause of the injury.

13 The Section 232 tariffs on steel products
14 increased raw material costs for the industry, but those did
15 not cause the injury, as shown in Chart 20. Back in 2017,
16 even before the 232 tariffs were imposed, Hirsh had tried to
17 obtain a needed price increase, but was unable to get that
18 increase because of the low-priced competition from China.
19 Once the 232 tariffs were imposed, Hirsh and other U.S.
20 producers again tried to raise prices to cover their costs,
21 but they could not do so, as they told you in the
22 questionnaires that are summarized in Chart 10, because of
23 the low-priced competition from China.

24 As Mr. Baily testified, only after the
25 preliminary duties were imposed as a result of this case,

1 could Hirsh increase prices. This shows it was the low
2 Chinese import pricing that was preventing those needed
3 price increases all along.

4 Finally, the Section 301 tariffs that have been
5 imposed on imports of vertical files from China, have not
6 prevented injury. As shown on Chart 21, despite the
7 imposition of these tariffs in September, 2018, imports from
8 China increased even further in the first half of 2019. As
9 Mr. Bailey stated, the threat of increasing those tariffs to
10 25% and the actual increase in June to 25% had no effect
11 either. Only the imposition of the preliminary antidumping
12 and countervailing duties allowed Hirsh to regain sales and
13 to increase its prices.

14 The 301 tariffs did not prevent injury during the
15 period of investigation and they will not prevent injury
16 going forward. Antidumping and countervailing duty orders
17 to offset the high levels of dumping and subsidization found
18 by the Commerce Department are critical to prevent further
19 injury to this industry. This concludes our panel's
20 testimony. Thank you for your attention, and we are happy
21 to answer your questions.

22 CHAIRMAN JOHANSON: We will now begin
23 Commissioners' questions with Commissioner Schmidtlein.

24 COMMISSIONER SCHMIDTLEIN: Okay, thank you very
25 much. I'd like to thank you all for being here today. I

1 wanna start with a question about demand. So, Ms. Cannon,
2 you pointed out that apparent consumption has increased
3 quite strongly over the period of investigation. But the
4 staff report reports that most market participants--except
5 for I think a couple purchasers--reported that demand
6 actually decreased or, at best, fluctuated. I don't know if
7 you wanna speak to this, or one of the witnesses, but can
8 you explain why were the market participants' perceptions so
9 different from what was actually happening with regard to
10 consumption?

11 MS. CANNON: Yes, and we discussed this at length
12 yesterday, because we saw also that disconnect in the staff
13 report. And our basic understanding is that there's a
14 perception, I think by everybody in the world, that digital
15 storage is increasing, where everybody's moving to
16 paperless, so one would expect there to be this decline, and
17 especially some of the purchasers that may not be as active
18 in the market have indicated this.

19 What was interesting though is, this issue came
20 up at the preliminary stage of the case as to what was
21 demand doing, and Mr. Bailey testified, and I'll let him
22 elaborate that, from his perspective, as somebody that's a
23 major player in the market, he did not see demand declining,
24 and let me let you elaborate on that, if you would, Mr.
25 Bailey.

1 MR. BAILEY: Sure. So I think there are a couple
2 of factors. First of all, these are very highly optimized
3 products for their use case. And they're high-value. So
4 they're very good at what they're used for. The economy's
5 been growing strongly, unemployment is at a fifty-year low
6 or something like that now. And office vacancies are also
7 really low. And we've seen historically that when office
8 vacancies are low, demand is up, probably because small
9 businesses are making investments, expanding.

10 What we see, and as I testified in May, demand
11 has been strong for us. We, of course, don't see all of our
12 competition, but it's easy to assume that all of these
13 things are gonna disappear overnight. You know, the
14 internal combustion engine's gonna disappear because of
15 electric cars. But in reality, it can take an enormously
16 long time for these things to happen. And we have not seen
17 any declines, any meaningful declines at Hirsh Industries.

18 COMMISSIONER SCHMIDTLEIN: So do you think that
19 the low price of the Chinese imports have played any role in
20 increasing the demand? You know, we don't cite the
21 elasticity statistics in the staff report too much, but the
22 staff report says that, you know, demand is modestly
23 elastic, I think is what they say. So, you know, there is a
24 relationship between the price and what you see with
25 consumption. So do you think any of the increase in demand

1 was driven by the fact that the subject imports were priced
2 so low? And if it is, you know, is there a way to sort of
3 parse that? Or do we need to parse it?

4 MR. BAILEY: It's really hard to say. Generally
5 elasticity of demand is something you expect, right? Except
6 for the luxury good where prices rise and the demand rises,
7 right? It's sort of --

8 COMMISSIONER SCHMIDTLEIN: Or something that's
9 critical.

10 MR. BAILEY: And critical.

11 COMMISSIONER SCHMIDTLEIN: Right, we have a lot
12 of products that are critical and they don't account for a
13 huge percentage of the cost of goods --

14 MR. BAILEY: It would be hard for us to say,
15 except to note that since these duties, the temporary duties
16 that have been put in place--the countervailing antidumping
17 duties--we've seen a lot of customers come back -- well,
18 we've seen a major customer come back to us who was buying
19 from China at substantially higher pricing. And the volumes
20 seem robust. So they seem to continue to buy, and we've
21 been able to achieve other price increases that we were
22 unable to achieve prior to this, with some fairly
23 significant buyers of files. So they're still buying with
24 no downturn in demand. We've looked at their demand in the
25 past and it seems about the same.

1 COMMISSIONER SCHMIDTLEIN: When did China come
2 into the market? Do you know?

3 MR. BAILEY: China, well, to our knowledge, they
4 first appeared in a big way in 2016.

5 COMMISSIONER SCHMIDTLEIN: Okay. And so prior to
6 that, what was happening -- I'm just curious -- like, in
7 terms of their impact on what was going on with demand. Was
8 demand going up year after year prior to them coming into
9 the market?

10 MR. BAILEY: It's been pretty stable. Hirsh has
11 been somewhat blessed, I think, because we've been growing
12 and that may not be indicative of the overall market. We
13 are extremely efficient, as your staff saw in our production
14 facility. And so we've been gaining share perhaps. So, you
15 know, what we see and what the overall industry is
16 experienced are not one and the same. But certainly coming
17 out of the last recession, there's been a steady increase
18 for Hirsh over many, many years.

19 We also do a lot of private-label, and as perhaps
20 as customers have sought out value, Hirsh is the beneficiary
21 of that. But China was never even a factor, at least not in
22 my time--I've been with the company since November of
23 2014--it wasn't a factor until 2016, whereas like a sudden
24 blitzkrieg and then continued penetration up to another
25 major significant invasion, if you will, in spring of 2018.

1 COMMISSIONER SCHMIDTLEIN: Okay. All right. Let
2 me ask -- I have a couple questions here about what's going
3 on with exports overall, so Ms. Cannon, I don't know if you
4 might be the best person to answer this because you have
5 access to the entire record.

6 We see that U.S. exports, right, increased I
7 believe over the period. But yet, the AUVs of exports are
8 lower than domestic AUVS or even subject imports AUVs,
9 right? So it looks like export AUVs are lower than what you
10 could get here in the U.S., and when you have low capacity
11 utilization or capacity utilization going down, so my
12 question is, why do we see these exports going up at such
13 low prices? Is there a product-mix issue here?

14 MS. CANNON: Yeah, the AUV issue is definitely a
15 product-mix issue. There's a wide variation in products
16 here, so if you're selling a smaller two-drawer cabinet
17 versus a five-drawer cabinet, it's gonna be a big difference
18 in the average unit value results. So product-mix will
19 definitely drive those AUVs. As to why the exports are
20 increasing, you know, I don't know whether we wanna
21 elaborate on that publicly or not. I defer to Mr. Bailey --

22 COMMISSIONER SCHMIDTLEIN: You could always
23 answer it in the post-hearing.

24 MS. CANNON: We'd rather say post-hearing about
25 --

1 MR. BAILEY: We definitely don't wanna talk about
2 anything specific to us, but maybe another factor. Of
3 course, we don't see the data. The U.S. dollar's been
4 really strong. And aren't those AUVs in U.S. dollars
5 denominated equivalent?

6 COMMISSIONER SCHMIDTLEIN: Yes.

7 MR. BAILEY: So if you have a foreign customer,
8 maybe been servicing them for a long time, but just, say
9 Canada for instance. And so Canadian currency depreciates
10 and you'd see some AUVs erode, even on like product. That
11 might be a factor, but I haven't seen the data. But, do
12 consider the currency as well.

13 COMMISSIONER SCHMIDTLEIN: Okay.

14 MR. KERWIN: Commissioner Schmidtlein, if I might
15 add. I don't think it's illogical that you would see an
16 increase in exports as the U.S. manufacturers were
17 attempting to maintain reasonable production levels in the
18 face of their major shipment declines in the U.S. market.

19 COMMISSIONER SCHMIDTLEIN: Yeah, what caught my
20 eye was the AUV values because they were so different and so
21 much lower in terms of the exports, but so, yeah, it looks
22 like you could get a better price if you continue -- you
23 could compete at lower price here, but so I'd be curious
24 what, you know, in terms of the product mix that is, again,
25 you can do this post-hearing if you want. But what you all

1 see in terms of, is it predominantly two-drawer file
2 cabinets that are being exported, and that's different from
3 what's predominantly being sold in the United States?

4 MR. BAILEY: Could we address that post-hearing?

5 COMMISSIONER SCHMIDTLEIN: Post-hearing?

6 MR. BAILEY: Yeah.

7 COMMISSIONER SCHMIDTLEIN: Okay. Similar
8 question with regard to imports from Mexico. And again, you
9 might wanna address this post-hearing. I assume there's a
10 product mix question here with regard to the AUVs.

11 MS. CANNON: Yes, your staff had inquired about
12 that and we have responded to that. There is a product-mix
13 issue on that as well. But we can elaborate further in the
14 post-hearing if you would like.

15 COMMISSIONER SCHMIDTLEIN: Okay. I think that
16 would be helpful. And in addition, in the staff report, it
17 talks about the difference in the gauge of steel that's
18 being used in Mexican imports and what's produced here. And
19 when we read that and then looked at the AUVs, it didn't
20 seem to really match up. So I don't wanna get into
21 confidential -- if you could look at what's said in the
22 staff report, so in terms of explaining why the AUVs are
23 lower, it didn't seem to really explain that. In fact, it
24 seemed to be the opposite of that, in terms of the
25 explanation about the gauge of steel that's used.

1 MS. CANNON: Okay. I thought that the staff
2 report indicated that the AUVs were higher, and that that
3 was more consistent with the gauge of the steel, but let me
4 look back at that, in terms of average unit values.

5 COMMISSIONER SCHMIDTLEIN: Yeah, no, okay.

6 MS. CANNON: But we'll be happy to look at that
7 and address that post-hearing.

8 COMMISSIONER SCHMIDTLEIN: Okay. Oh, I'm sorry.
9 My time is up. So I will yield the floor. Thank you.

10 CHAIRMAN JOHANSON: Commissioner Kearns?

11 COMMISSIONER KEARNS: Okay, thank you all for
12 appearing before us today. We appreciate your testimony. I
13 guess I wanna start with direct imports and how best to
14 address this issue, so this is probably a question for you,
15 Ms. Cannon. On Page 17 of your brief, you say that price
16 competition between purchases of U.S. product and direct
17 imports, "is not occurring at different levels of trade."

18 But on Page 15, you say that a retailer directly
19 imports product "to reduce it's import costs by eliminating
20 a middle-man markup." Doesn't this middle-man markup
21 indicate a different level of trade?

22 MS. CANNON: No, I mean, when you're talking
23 about competition in the market, we're basically looking at
24 who's competing against who. And you've got a U.S. producer
25 that's forced to compete against the Chinese producer. Now,

1 in some instances--the steel industry, for example--it's a
2 common method that, rather than competing directly against
3 the Chinese producer, Chinese producers tend to sell through
4 distributors, and they act as the middle-man. And they tend
5 to do a mark-up. And that's sort of traditionally the way
6 the Commission has looked at price comparisons for many
7 years, frankly, driven a lot by those steel industry cases
8 and analyses.

9 But what we've seen as we've done more and more
10 cases that involve retail purchasers, is that that whole
11 paradigm has shifted, and big-box retailers don't do that.
12 They have decided it's much more cost-effective for them to
13 skip the middle-man, not pay a mark-up, if you will, and
14 just source directly. So you've got our companies, like
15 Hirsh, competing directly against the Chinese producers for
16 sales to the big-box retailer.

17 So there's no different level of trade. All
18 they're doing is saving a mark-up. It's not saving another
19 activity, if you will. And that's why we think that it's
20 critical that the Commission look at these prices on an
21 apples-to-apples basis and not consider that one has to be
22 adjusted.

23 The only adjustments that we think are relevant,
24 your staff report has already taken into account, because it
25 tells the importers, when you're reporting these direct

1 import prices, you must include ocean freight, customs
2 duties, brokerage, anything else that would be incurred that
3 you wouldn't face here. But after that, you are on the same
4 level. Because we don't have inland freight on ours, and
5 they don't have inland freight in theirs, and you know,
6 we're really at a loss to figure out what else would be
7 there.

8 And I've been through many hearings where those
9 questions have been asked by Commissioners and the importers
10 have stumbled to try to explain what else is going on that
11 would explain some difference that they face. So I think
12 it's a really critical issue facing the Commission now, as
13 you see more and more cases of this type, that these types
14 of pricing comparisons be made.

15 COMMISSIONER KEARNS: Yeah. Okay, thank you.
16 And to some extent, you anticipated my next question, but I
17 think I can still use more here, but if we make no
18 logistic-related adjustments here, what should we do in
19 cases where a middle-man importer is involved? Should we
20 look at the price the middle-man importer charges to its
21 customers?

22 MS. CANNON: Where there's a middle man
23 importer involved, you're going to look at where the
24 competition is occurring. So where you have a case where
25 you have the middle man involved, and then you've got a

1 company that's competing against that middle man, then I
2 don't think any adjustment needs to be made for that either,
3 because you've got -- that is the level of competition,
4 unless I'm misunderstanding your question.

5 COMMISSIONER KEARNS: No, no, no. I think you
6 understand my question, but I'm not sure I understand your
7 answer. So when you say "where the competition is
8 occurring." So in other words, we should look at whoever is
9 purchasing both imports and domestic product?

10 MS. CANNON: Correct.

11 COMMISSIONER KEARNS: And compare those
12 prices.

13 MS. CANNON: And compare those prices, because
14 that's what the purchaser is doing.

15 COMMISSIONER KEARNS: Right.

16 MS. CANNON: Exactly.

17 COMMISSIONER KEARNS: And so in a more
18 traditional case that doesn't involve sales directly to
19 retailers, you're saying in those cases typically you --
20 well I mean in those cases don't you typically have an
21 importer who then the steel example you gave, the importer
22 then sells to a distributor. The distributor is purchasing
23 both imports and domestic product, and so we look at the
24 sales from the importer to the distributor.

25 MS. CANNON: And from the domestic producer to

1 the distributor.

2 COMMISSIONER KEARNS: Okay.

3 MS. CANNON: Exactly.

4 COMMISSIONER KEARNS: All right, thank you.

5 Turning back to the AUVs just for a second, just to kind of
6 finish that discussion, because I think we talked about
7 export AUVs, Mexican import AUVs, what explains the
8 difference between AUVs of Chinese product and U.S. AUVs? I
9 guess is that also a product mix issue?

10 MS. CANNON: I believe so. There are products
11 mix issues. So yes, I would assume that there's going to be
12 some product mix differences between the Chinese product.
13 In fact, I know there are. We can probably explain further
14 what those are in our brief.

15 COMMISSIONER KEARNS: Okay. Even though, I
16 may be misremembering, but I mean our pricing data, I think
17 you'll like that I call it pricing data maybe.

18 MS. CANNON: I do.

19 COMMISSIONER KEARNS: Whatever we want to call
20 the data that lists particular prices on particular sales,
21 that there was pretty good coverage there, isn't there?

22 MS. CANNON: Yes.

23 COMMISSIONER KEARNS: Okay, okay. Yeah, I
24 guess you can tell us more about that post-hearing. That
25 would be helpful.

1 MS. CANNON: We'd be happy to do that.

2 COMMISSIONER KEARNS: Thank you. So this -- I
3 just had a hard time understanding what was going on here.
4 You mentioned in your brief that one of your customers asked
5 Hirsh to send its product packaging to China. That's your
6 brief at page 27. Why would the customer want Hirsh to do
7 that? I just didn't fully understand what was going on
8 there.

9 MR. WETTERBERG: Brandon with Hirsh
10 Industries. So our customers, especially the big ones,
11 often make trips to China to make purchasing decisions, and
12 so when they're comparing a bunch of products that they
13 would like to potentially put on their store shelves, they
14 lay out what they call a plan-o-gram, that's literally a
15 mock-up of what their store shelves are going to look like,
16 so they can determine what products are going to fit, how
17 they're going to look on the shelf.

18 Because so much of their business is done in
19 China, they choose to set up those plan-o-grams, you know,
20 make those decisions in their Chinese offices, because they
21 do have offices and sourcing groups in China. So rather
22 than conduct those types of decisions here, they ask us to
23 send our packaging, so that they can set up our packaging,
24 see how it looks on the display and compare it against other
25 potential competitors.

1 COMMISSIONER KEARNS: So just a concrete
2 example here. So they basically want to see what your
3 packaging looks like, so maybe to understand the dimensions
4 of it, to know if we replace your product with imports from
5 China, we need to know that their packaging will fit that
6 same space on our shelves?

7 MR. WETTERBERG: Exactly.

8 COMMISSIONER KEARNS: Okay, thanks. Then I
9 want to talk about the 301 impact versus preliminary duties.
10 You indicated in your brief that the preliminary duties had
11 an impact on subject import volumes from China, but the 301
12 duties did not. Why would think there would be -- what
13 would account for that difference? What would there be a
14 difference in one and not the other?

15 MS. CANNON: Well, we know for a fact that the
16 ten percent duties have no effect, because you can see the
17 import surge that happened in the first half of the year.
18 So clearly that was nothing. We know that even though the
19 25 percent tariffs were repeatedly referenced by the
20 President as going to be imposed, that had no effect.
21 Nobody came back to Hirsh.

22 But all of a sudden when the preliminary
23 duties hit, that had a monumental difference. Why? I think
24 a couple of reasons. Those tariffs were at ten percent only
25 and then only up to 25 percent. The duties that were

1 imposed in this case were 389 percent. 389 percent duties
2 are massive, and really unsustainable for a company. But 25
3 percent tariffs in a 301 context, there's no rules against
4 absorption, so you know. We're not really sure what was
5 going on. I can't speculate, but we do know that that was
6 having zero effect and all of the sudden in August Hirsh
7 finally got business back.

8 COMMISSIONER KEARNS: Okay, thank you. I
9 think my last question, capital expenditures. Either now or
10 in your post-hearing brief, can you explain the apparent
11 discrepancy between the U.S. industry's trends and
12 profitability and capital expenditures during the POI?

13 MS. CANNON: That's probably best done in a
14 brief, yes.

15 COMMISSIONER KEARNS: Okay, thank you. I have
16 no further questions.

17 CHAIRMAN JOHANSON: Commissioner Stayin.

18 COMMISSIONER STAYIN: Thank you. Do you
19 operate under a contract with your purchasers, and under
20 these -- first of all, and secondly are there agreements
21 within that contract to allow you to pass through increased
22 costs that you might incur?

23 MR. BAILEY: Yes. The short answer is yes. A
24 good proportion of our customers have contracts. They're on
25 an annual basis, but with some of them, particularly the

1 largest ones, there's a mechanism, an automatic mechanism
2 for getting recovery on the cost of steel. So that keeps it
3 easy. Instead of having to go negotiate every quarter, you
4 look at an agreed-upon index of the price of steel, and you
5 should be able to pass that along.

6 In addition, with all customers we are able to
7 renegotiate pricing with some advanced notice. It's
8 typically two to four months, particularly with the larger
9 companies, on other rising input costs. We've had major
10 rising input costs. Obviously, we've seen steel increase.
11 But even when we were contractually owed an increase and
12 it's an agreed-upon methodology for calculating that with an
13 agreed-upon index, we were unable in some instances to get
14 what we were owed, because the customer simply said no, or
15 in one case a customer said I'm just going to do a complete
16 brand new request for proposal, which ultimately ended up
17 with us losing the business altogether to China.

18 So even though their ink's on the paper, this
19 is how we calculate it, this is what you're owed, they said
20 we're not going to accept it.

21 COMMISSIONER STAYIN: Breach of contract and
22 unwilling to enforce it, unable --

23 MR. JENSEN: This is Dave Jensen with Hirsh
24 Industries too. Sorry to interrupt. But one of -- one of
25 the key elements to keep in mind is that the contracts have

1 no volume commitments. So even though we have a contract
2 with our customer, they can still move their purchases to
3 somebody else based on price, because the contract doesn't
4 bind them to buy any certain quantities.

5 COMMISSIONER STAYIN: The impact of the
6 tariffs, 301 and 232, indicated that this resulted in an
7 increase in your prices in terms of raw materials. Can you
8 explain how that happened, since the tariff -- should have
9 suggested that the tariffs would enable you to be able to
10 buy steel at a lower price?

11 MR. BAILEY: So the 232 tariffs, as I recall,
12 went into effect in March of 2018, and we saw within a very
13 short period of time the pricing of steel rise quite
14 dramatically. We don't buy raw steel. You know, you've got
15 figure we're buying steel, but it's also transformed. It's
16 rolled, it's delivered, there's other costs.

17 So the steel pricing didn't rise by 25
18 percent, but it rose by close to that amount, over 20
19 percent. And so in those instances where we do have price
20 inflation agreements quarterly, we went to pass those along,
21 but we weren't always able to get the full increase. So
22 even in instances where you can get an increase, the real
23 question is did you get the increase that you were owed,
24 based on the proportion of the cost of the product, for
25 instance.

1 COMMISSIONER STAYIN: I'd like to talk a bit
2 about the product itself. The characteristics, the physical
3 characteristics of the Chinese product, are they similar or
4 the same as your product?

5 MR. WETTERBERG: Brandon with Hirsh. Yes. In
6 most cases, they're nearly identical. In fact, one of our
7 major customers that switched their purchases to China chose
8 to leave our store display samples in the stores on display,
9 even though they were purchasing and selling Chinese-made
10 goods. So in most cases, they're virtual knockoffs of the
11 product that we manufacture.

12 COMMISSIONER STAYIN: Quality is normally a
13 consideration in purchases. Is that an issue here, whether
14 the Chinese product is equal or close to equal to the
15 quality of your product?

16 MR. WETTERBERG: Yeah. Many of the large
17 customers in the U.S. require third party certifications,
18 and the Chinese have been able to have their product pass
19 those certifications, same as the U.S. product.

20 COMMISSIONER STAYIN: In terms of conditions
21 of sale, your products -- your product is bought through
22 distributors primarily, or through direct purchases between
23 you and the purchaser?

24 MR. WETTERBERG: This is Brandon from Hirsh.
25 Most of our product is sold directly to our customers.

1 There's very little through distributors.

2 COMMISSIONER STAYIN: Very little in
3 distributors, okay.

4 (Pause.)

5 COMMISSIONER STAYIN: In terms of demand, what
6 are the primary drivers of demand in this market that we
7 have today?

8 MR. BAILEY: We've observed that when office
9 vacancies decline, demand goes up. So basically there is a
10 correlation with the economy, and the economy is doing well.
11 It stands to reason that there's likely to be more business
12 formation perhaps.

13 COMMISSIONER STAYIN: Is demand driven by what
14 your purchaser does with the product in terms of promoting
15 the product, offering special sales of your product? Does
16 that increase demand and is that something that makes
17 certain buyers much more important to you than maybe others?

18 MR. BAILEY: Well certainly a promotion will
19 increase sales significantly. But the real question is what
20 happens when they stop promoting? In other words, do you
21 really just have the end buyer forward buy? Have you
22 actually increased enough demand overall?

23 During the promotional period, of course the
24 sales go up quite a bit, and we do have some retail
25 customers who traditionally have a promotional time period

1 in the calendar that we observe and follow, and it does grow
2 sales. But then sales fall down significantly afterwards.

3 COMMISSIONER STAYIN: When the price -- the
4 cost of product increased, did it have any impact on the
5 prices that the Chinese were offering? We're talking about
6 the cost of the raw materials, manufacturing the Chinese
7 have to go through. Did that -- when it increases some of
8 the steel prices or others, did that have any impact on the
9 Chinese price?

10 MR. BAILEY: We haven't seen the Chinese
11 price. One, I'm a little bit into hearsay, but China is the
12 world's largest producer of steel. They produce about half
13 the steel in the world, and so there have been a lot of
14 protective measures put in place with the U.S. domestic
15 industry. In fact, Kelley Drye has represented some of
16 those clients. There were anti-dumping, countervailing
17 duties placed on Chinese steel in 2016, and then on top of
18 that the Section 232.

19 But what might be happening is that steel,
20 which every indication is that it's still being produced in
21 China, is merely being diverted into finished goods. So our
22 costs are -- have nothing to do with Chinese prices. They
23 have a huge advantage over us and they're able to sustain
24 that. You can ask more.

25 MS. CANNON: Commissioner Stayin, I would also

1 point to the Commerce Department's preliminary finding of
2 substantial margins of dumping by China, which suggests that
3 they are not pricing commensurate with their costs or
4 reasonable price levels.

5 COMMISSIONER STAYIN: And I think you've
6 already mentioned, but maybe you would repeat. What has the
7 impact been in terms of demand in the U.S. market and your
8 opportunities for sale since those measures were put in
9 place?

10 MR. BAILEY: Sorry, just trying to clarify the
11 question. So you're talking about the temporary anti-dumping
12 countervailing duties that were implemented at the end of
13 July?

14 COMMISSIONER STAYIN: Yes.

15 MR. BAILEY: It's been good for us. We have
16 received substantial orders from a customer who had left us
17 for China and now they've returned, and we've been able to
18 secure price increases where we could not before.

19 COMMISSIONER STAYIN: All right. I think
20 that's all for now. Thank you.

21 CHAIRMAN JOHANSON: Commissioner Karpel.

22 COMMISSIONER KARPEL: Thank you. Could you
23 talk a little bit about your imports from Mexico? Why do
24 you import from Mexico, and I'm looking at some of the data
25 on imports in the staff report, which I note is all

1 proprietary.

2 But maybe you could also talk a little bit
3 more about the numbers of imports from Mexico and the trend
4 over the Period of Investigation in your post-hearing brief.
5 But maybe here, you could at least address that question
6 about imports from Mexico more generally, and why you're
7 doing so.

8 MR. BAILEY: Tom Bailey from Hirsh. So Hirsh
9 Industries, our parent company owns a facility in Mexico.
10 It's called EDM, and that facility was built over two
11 decades ago. At the time, it was built to increase
12 capacity, overall capacity for the company, to enable the
13 company to go into some other product categories that are
14 not subject to this discussion, and also to better enable us
15 to penetrate sales into Latin America, Mexico and Latin
16 American countries.

17 The facility has achieved all of those
18 objectives. That facility does manufacture vertical files
19 as well. But as we've submitted in our documentation,
20 substantially all of the volumes are vertical files of the
21 overall parent company come out of Dover, Delaware. Mexico
22 has also been pretty severely impacted by China as well,
23 negatively impacted, just as the U.S. market has.

24 COMMISSIONER KARPEL: In terms of your imports
25 from Mexico, are you using that to supplement your

1 availability of domestic production? Are you using it to
2 reach different customers because it's a different product
3 line?

4 MR. BAILEY: I'm sorry I didn't answer the
5 second part of your question originally. The products made
6 in Mexico are different products. There is very little
7 overlap. There's some overlap. Where there's overlap, the
8 pricing is nearly identical. You can imagine a large
9 company that's buying products from us. It's essentially
10 the same product. They're not going to do prices. They
11 can't manage that in their inventory.

12 There's no underselling of Dover by Mexico.
13 Many of the products sold in -- almost all the products sold
14 in Mexico are different from those sold out of Dover. So we
15 have the larger items, four drawer, more four drawer files,
16 more five drawer files, deeper files.

17 COMMISSIONER KARPEL: Okay, thanks. Moving to
18 a different question, and I think you'll also probably have
19 to address this in the post-hearing brief, but this deals
20 with the differentials we're seeing in the pricing data
21 among product categories. I don't want to say more than
22 that, but there are some differences there among the product
23 categories and I'd like to better understand what that means
24 and why that is.

25 MS. CANNON: Yes. We'd be happy to address

1 that in our brief.

2 COMMISSIONER KARPEL: Moving on, you talked a
3 little bit about this earlier, in terms of when -- with the
4 other Commissioners, about when Chinese products started
5 entering the U.S. market, and you identified 2016 and said
6 there was a bit of Chinese product maybe before then. But I
7 guess I'm trying to understand, did something happen in
8 China? Like why all of a sudden in 2016 was this the year
9 that imports were going to start exhibiting this increasing
10 trend? Do you have any ideas about that?

11 MR. BAILEY: I'd be speculating. So -- which
12 is a dangerous thing to do, but you know, one school of
13 thought is well, they're not coming because they haven't
14 come yet, and we believe that the manufacturers involved may
15 be subsidized by a local provincial government within China,
16 and they decided to strategically go after this industry for
17 some reason.

18 The product is being dumped, it's being
19 subsidized, you know. We've been absolutely dumbfounded at
20 how they can undersell us by so much. Some of your staff
21 have seen our Dover facility. It's the world's most
22 efficient facility. It's a thing of beauty, and so we just
23 think they decided to go after it maybe to stimulate jobs at
24 that time. Why in '16 instead of '15, or '16 instead of
25 '17, we're not really sure. But what is interesting is the

1 Chinese product showed up before the countervailing duties
2 and anti-dumping duties on steel. China is the world's
3 largest manufacturer of steel, and that steel needs to find
4 a home.

5 I don't speak for the steel industry, but
6 people say that China produces a lot more than it needs, and
7 unless you're willing to shut down those mills the steel's
8 going to be made, it's going to somewhere. It's either
9 going to be diverted or it's going to go into finished
10 goods, and that might have something to do with it. But
11 again, we don't know. We have no way of knowing.

12 (Simultaneous speaking.)

13 MS. CANNON: Commissioner Karpel, I --
14 oh, let me just. Go ahead David.

15
16 MR. JENSEN: One of the reasons why they
17 started to source product from China at that point in time
18 is we tried to impose one of our contractually obligated or
19 called upon price increases, and when we tried to enforce
20 the price agreement, they moved the business at that point,
21 the major customer.

22 MS. CANNON: Commissioner Karpel, this is
23 Kathy Cannon. I as just going to add that we've seen this
24 increase across a large array of fabricated steel products.
25 It's commensurate with one of the five-year plans that the

1 Chinese government implemented, where they said that we want
2 to target the expansion of value added products as one of
3 their goals as a government policy, specifically target it
4 for the steel industry because, as Mr. Bailey said, they
5 have so much steel and they're trying to figure out how to
6 use it better.

7 So one of the specific goals is to enhance the
8 exportation of value-added steel products, and they've
9 subsidized a lot of these to that end.

10 COMMISSIONER KARPEL: Thank you. I'd also
11 like to go back to the level of trade questions that
12 Commissioner Kearns also raised, and that you talk about on
13 pages 16 and 17 of your prehearing brief, and also footnotes
14 12 and 13 where you try to address some of the cost. I
15 guess my question, since I think you had a good exchange
16 already about this, but is -- are there no costs that a
17 retailer who is serving as directly importing, are there no
18 costs that they incur to be the importer themselves, right?

19 So they're looking at I have a purchase cost,
20 what I have to pay the foreign producer for this product.
21 But are there other costs that they're keeping in mind as
22 they make that choice between imported product and domestic
23 product, that they're factoring in, that my purchase price
24 isn't the full extent of my costs here?

25 MS. CANNON: Right, and that's a very good

1 question, because I think that's what we've been trying to
2 grapple with here, and to the extent that there are
3 different prices, that is what I think your questionnaire
4 very carefully covers. In the instructions in the importer
5 questionnaire, when they ask for these what they call landed
6 duty paid prices, the direct import prices, they say when
7 you report these prices, be sure to cover and include your
8 ocean freight, your customs duties, your brokerage, your
9 insurance, anything that would take your cost to get it to
10 the port.

11 So basically now this is at the port price,
12 and that FOB price, if you will, is exactly comparable to an
13 FOB price from Hirsh's factory in Delaware where they're
14 buying the product. Now you've got a product at both
15 places, and what are you going to do? You're going to ship
16 it to your factory, so you have inland freight.

17 But inland freight is not included in the
18 prices that the domestic producers have reported. So that
19 shouldn't be added back to this price either or you'd really
20 distort the prices. What else could you have? Well, you'll
21 see references to things like logistical supply cost
22 sometimes or GNA expenses, sort of amorphous kind of things.
23 But whenever we've drilled down to say what is that, it's
24 nothing different than what they're doing with Hirsh's
25 product.

1 They might be taking Hirsh's product and
2 putting it in a warehouse. Well, you know, they do it for
3 an import, they do it for the domestic product. It's not a
4 different selling expense that's associated with one versus
5 the other once you've bought it at the port, at least none
6 that I have been able to identify any of the cases that
7 we've been through, and there have been many of these
8 requests in many cases where you're trying to compare
9 prices.

10 There have been general references and in fact
11 often people have said well, you know, there's these other
12 sort of additional things we do. You say what? It's like
13 well, it falls apart at that point because it doesn't
14 differentiate it from what they do when they're buying the
15 U.S. product. That's why we think it's so important that
16 these prices get compared because when Hirsh loses a sale,
17 it's losing it based on that price.

18 COMMISSIONER KARPEL: And so what services, if
19 a retailer is buying from an importer not to make
20 themselves, there's a service that that importer is
21 providing that retailer. And when that retailer buys --
22 serves as the importer themselves, they're having to do that
23 service themselves. So is there any value that they or cost
24 that that retailer is having to incur itself by providing
25 whatever service an importer normally provides by providing

1 that themselves? I seem over time so --

2 MS. CANNON: Right, and let me just answer
3 briefly, because it's a good question. The reason I think
4 in the past the importers were doing it was because the
5 buyers at the end of the day, the steel purchasers say,
6 didn't have an infrastructure set up to have barges to bring
7 product over from overseas. They needed somebody to handle
8 that function to get the product here.

9 There wasn't anything particularly significant
10 that they were doing with a steel product once they got into
11 the port other than inland shipping it to the customer. But
12 when you have companies, these big box retailers like a
13 Walmart, they have their own barges. They can do this so
14 cheap that they've realized why have these middle man I'm
15 paying a markup to when I can do that myself?

16 Now do you have to account for those costs?
17 Yes, you do, the ocean freight and everything else because
18 that's what the importer was absorbing in addition to the
19 markup. But once you've accounted for that, there isn't
20 really anything else. That's what they were paying for.
21 They were paying for somebody to deal with the importation,
22 paying the customs duties, paying the insurance and
23 brokerage, dealing with that aspect of it when you didn't
24 have that ability to do it, which these big box retailers
25 very much do now.

1 MR. KERWIN: Commissioner, if I could add one
2 point. Traditionally, an importer has served a role of
3 holding inventory for smaller customers that don't want to
4 buy an entire container load. They may want to mix up an
5 order.

6 But what we're seeing more and more of is
7 these large, large purchasers, often retailers, who have
8 enormous distribution systems, have their own warehouses,
9 are more than capable of taking an entire container load
10 coming from China, and that's exactly equivalent to what
11 they would take from a truckload from a U.S. domestic
12 producer.

13 So in terms of inventory carrying costs for a
14 large customer, it's all the same whether it's coming from
15 China or coming from the U.S. So that's not a cost
16 differential either.

17 CHAIRMAN JOHANSON: All right. I'd like to
18 thank you all for appearing here today. Mr. Bailey, a
19 follow-up question to you to a response you gave to
20 Commissioner Karpel. I believe you stated that the product
21 that is being imported, that you all are bringing in from
22 Mexico is slightly different than that produced in the
23 United States; is that correct?

24 MR. BAILEY: Yeah. Almost all of the
25 production of vertical files in Mexico for EDM is different

1 from that made in the Dover, Delaware facility.

2 CHAIRMAN JOHANSON: Could you elaborate a bit
3 more as to the differences, and if you don't want to make
4 that public, you can of course submit that in a post-hearing
5 brief.

6 MR. BAILEY: We could probably go into some
7 more detail in a post-conference brief. But in general, the
8 production in Mexico are for larger items, physically larger
9 items, more four drawer items, five drawer items. We don't
10 make any five drawer at all in Delaware, for example. They
11 also tend to have bigger depths, so that they can carry more
12 paper.

13 Of course that leads to other changes in the
14 design, because it's like building a building. You need to
15 have more structure to it when it gets bigger. But they're
16 just physically larger for the most part. But where there
17 like items and there are some like items, a critical point
18 that I'd like to make is that they're priced nearly or
19 exactly the same.

20 If they're different, they're within pennies
21 of each other because that's what the customers would
22 demand. If a customer happens to be buying the same product
23 from both locations, if there are such customers, then they
24 can't have two different prices of the same SKU. Their
25 inventory systems wouldn't be able to manage that. So

1 there's no underselling of Dover by Mexico, which is a point
2 I want to make sure I get across.

3 CHAIRMAN JOHANSON: Okay, thanks Mr. Bailey.
4 On page 11 of your prehearing brief, you note that
5 purchasers rank the domestic like product as superior or
6 comparable to subject imports in quality, and this is at
7 page -- at Table 2-10 at page 215 of your brief, prehearing
8 brief. In what ways are domestically produced cabinet, file
9 cabinets superior to subject imports in quality?

10 MS. CANNON: Well, we were reporting what your
11 purchasers responded to you. I think Hirsh's experiences,
12 that the products that they've been competing against, the
13 imports, are largely identical or can produce them
14 identically to what they're producing. But there may be
15 other people out there in China that are entering the
16 market. They may not be as comparable, you know, quite at
17 the level of the people that they're competing against.

18 So I don't -- I don't know, but I think the
19 key point was that the purchasers were not saying that they
20 were going to the imports for quality reasons, because the
21 U.S. product was at least as good if not better than the
22 imports.

23 CHAIRMAN JOHANSON: But you do know how they
24 -- why your product might be seen as better in terms of
25 quality?

1 MR. WETTERBERG: It's Brandon from Hirsh. I
2 can't explain the responses of the other people. From our
3 perspective though, the Chinese product that we're competing
4 against is similar quality and I wouldn't have anything to
5 add as to what someone else might view as superior. In our
6 experience, the product's identical. Like I said, they're
7 still using our product on display and selling the Chinese
8 product as equivalent. So our customers even view it as
9 equivalent.

10 CHAIRMAN JOHANSON: Okay thanks, Mr.
11 Wetterberg. On page 29 of your prehearing brief, you
12 specify that you provide an office supply wholesalers with
13 private label vertical metal file cabinets. Are there any
14 product characteristics or features that could cause this
15 product to be sold at different prices? Or is there
16 branding involved?

17 MR. WETTERBERG: This is Brandon again. I'm
18 not aware of any significant product differences between the
19 private label that we sell to wholesaler versus another
20 customer.

21 CHAIRMAN JOHANSON: Okay, thanks.

22 MR. JENSEN: There are no differences. It's
23 an identical product. In a lot of cases, we don't have any
24 branding on our products so they sell, they market it as
25 their own brand, but it's an identical product to our own.

1 CHAIRMAN JOHANSON: Do you believe they're
2 sold at the same prices?

3 MR. BAILEY: Well, one thing we can say for
4 sure is that if you're a big customer, you tend to get
5 better pricing than if you're a smaller customer. And so
6 the customer, I think you're referencing is a quite
7 substantial customer, and they're going to get, you know,
8 among the best pricing that Hirsh has to offer.

9 How they choose to price it, we of course
10 don't do any what we call retail price maintenance. They
11 price it how they fit, see fit. But they do get very
12 favorable pricing because they buy an awful lot of stuff
13 from us. They fill truckloads, and they're able to
14 negotiate with us those discounts.

15 CHAIRMAN JOHANSON: All right, I understand
16 Mr. Bailey. Thanks. You state that most Chinese vertical
17 file producers are capable of meeting U.S. customer
18 specifications, and you provide this at page ten of your
19 prehearing brief. What customer specifications do customers
20 have beyond business and institutional furniture
21 manufacturer' association standards?

22 MR. WETTERBERG: Brandon with Hirsh. There's
23 quite a few other things like the Consumer Product Safety
24 Act regulate lead paint levels, lead levels in paint, sorry.
25 There's a variety of tests that our customers have. BITHMA

1 is one of the requirements.

2 They look for things like sharp edges, you
3 know, is it safe. Quite a few, it's beyond lead. They test
4 for other hazardous chemicals. There's POP-65 requirements
5 for California and things like that. There's quite a few.

6 CHAIRMAN JOHANSON: Are you aware of any
7 domestic or import sources that don't meet the relevant
8 standards?

9 MR. WETTERBERG: I am not aware. To my
10 knowledge, the U.S. industry is capable of meeting these
11 standards, and we have seen imports that are fully capable
12 of meeting the standards as well.

13 CHAIRMAN JOHANSON: As far as you're aware,
14 have any domestic producers failed to meet customer
15 specifications?

16 MR. WETTERBERG: If you're asking about the
17 industry, again I think the industry is fully capable of
18 meeting these standards. Oftentimes, when products are sent
19 out to third party test labs, there is a variety of
20 documentation, paperwork that's required. Sometimes there
21 can be an initial failure, but these are always, to my
22 knowledge, resolved in subsequent follow-up testing.

23 CHAIRMAN JOHANSON: Okay, thank you. I
24 apologize if this was asked before. I think you might have
25 touched on it, but I want to dig a bit more. Subject

1 imports increased rapidly over the Period of Investigation,
2 yet this is not a new product. Why did subject imports only
3 increase rapidly in recent years? Is the industry in China
4 relatively new?

5 MR. BAILEY: I think this is the same question
6 that Commissioner Karpel. Essentially, they shot up in 2016
7 for some reason, and their pricing was extraordinarily
8 aggressive. Good product, extremely well priced, dumped and
9 so that's why they were able to penetrate so rapidly.
10 That's also why our need for relief is urgent. If they can
11 grow this fast this far, you can imagine what it would look
12 like because the pricing has no -- seems to be completely
13 divorced from reality with costs in a market economy.

14 CHAIRMAN JOHANSON: Was China simply not in
15 the market prior to ^^^^

16 MR. BAILEY: We didn't see China at all until
17 2016, but we don't know if they were here. If they were
18 here, they were very, very tiny and you know, it's possible
19 that if they were here, again I'm speculating, that it might
20 have been market-based competition. I think some of it gets
21 subsidies and some of it might not. We didn't see them at
22 all until 2016, but when we saw them they came in in a big
23 way and continued to just penetrate deeper and deeper and
24 deeper all through 2018 and 2019.

25 CHAIRMAN JOHANSON: All right, thank you Mr.

1 Bailey. I have another question involving direct imports.
2 I know that you all have answered some of these before, but
3 I want to go a bit further into it. You described direct
4 import sourcing as a critical condition of competition. You
5 do so at page 15 of your prehearing brief.

6 In fact, direct imports are the sole type of
7 import pricing available to the Commission in this
8 investigation. When did direct import sourcing become
9 important in this industry, and what do you believe is
10 driving this trend?

11 MS. CANNON: From what we've seen, direct
12 import sourcing has been the critical and major, if not sole
13 means of importation in this industry, because it is the
14 major method of importation by the types of purchasers you
15 see here, which are the big box stores. You've seen in that
16 in other cases too.

17 When we did the tool shelving case and book
18 shelving case, you were looking at major retailers, all of
19 whom were engaged in direct importing because it's cheaper
20 and they've told you that, that they save the middle man
21 markup and they have the infrastructure available to them to
22 do that. So in these types of products, I think it's become
23 basically the common method of importation now, which is why
24 this has become such an important issue for you to consider
25 when you're looking at these prices.

1 CHAIRMAN JOHANSON: Right. Thank you for your
2 responses. Commissioner Schmidtlein?

3 COMMISSIONER SCHMIDTLEIN: All right, thank you.
4 I just have a couple more questions. Ms. Cannon, just given
5 the fact that you practice before the Commission so much, do
6 you know, just from your own other experience, did we change
7 the questionnaire questions in the last few years? So, this
8 issue about direct imports has started coming to the
9 forefront not long after I got here, and there's been a few
10 cases I can think of off the top of my head, right, like,
11 boltless steel shelving and tool chests.

12 I was trying to think of other cases that deal
13 with the -- you know, finished goods that big-box stores are
14 buying. And in those earlier cases, I know we would ask for
15 these estimates, and then sometimes we would cite that when
16 they would give it, in terms of like what the differential
17 was and at the estimate of the additional costs for things
18 that the importer would normally take care of wasn't enough
19 to overcome that price differential.

20 So I'm just wondering, do you know? I'm gonna go
21 back and look, right, at these different questionnaires.
22 But from your experience, do you know, did we change the
23 questionnaire questions? So that those costs were already
24 being requested?

25 MS. CANNON: I'm trying to remember, frankly,

1 because there was an iteration. I mean, originally, you
2 didn't ask for these at all.

3 COMMISSIONER SCHMIDTLEIN: Right.

4 MS. CANNON: And then this became a pattern of
5 sales, so we started asking the Commission to include the
6 question.

7 COMMISSIONER SCHMIDTLEIN: Yeah.

8 MS. CANNON: What I'm trying to remember is
9 originally, when you asked for the question of pricing, and
10 maybe one of my economist friends might remember better, I
11 don't know whether you were controlling for all of the costs
12 that you're now controlling for.

13 COMMISSIONER SCHMIDTLEIN: Yeah, that's what I
14 thought.

15 MS. CANNON: In the footnote. That's what I'm
16 trying to remember, and that's what I think is critical,
17 that if those costs are all included, that's where, now you
18 don't have to ask for and worry about other logistical
19 costs, because if what you were getting originally was
20 simply, "Here's the price I pay," and you hadn't told them
21 to adjust for it, that would've been different. But let me
22 see if Brad or Mike remember.

23 MR. KERWIN: I don't honestly remember if there
24 has been that change. I mean I give the Commission and the
25 staff credit for progressing and moving, making this more of

1 a center part of the questionnaire process. Obviously years
2 ago, it didn't exist. And it is an interesting thing to
3 see, you know, over my career, how in the beginning, the
4 pricing information was all on the basis of a traditional
5 importer.

6 It was almost unheard of that anybody was
7 importing directly, which seems odd now, because you see it
8 in so many cases that people are importing directly, and it
9 makes sense because it's cheaper and the cost savings go
10 directly to the, you know, the ultimate U.S. purchaser of
11 the product. So I don't remember that specific question,
12 but I do think that we've really made progress in terms of
13 getting the information properly on the record. It's so
14 important.

15 COMMISSIONER SCHMIDTLEIN: Okay. All right, I
16 was just curious. I'm gonna go back and look because, five
17 years when I got here, this is when it was just coming to
18 the forefront and the staff was grappling with how to deal
19 with this and the Commissioners were sort of how, you know,
20 and so I'm curious to see whether -- my guess is it has
21 changed, what we ask for. What we asked for then and what
22 we're asking for now. It's become more explicit is my
23 guess. But I'm gonna take a look.

24 MS. CANNON: I believe that's the case, too. I
25 believe there's been an evolution of recognition of these

1 costs. But I'd have to go back to actually look at the
2 questionnaires.

3 COMMISSIONER SCHMIDTLEIN: Yeah. Okay. I just
4 had a couple more questions. One is, when you look at the
5 trends for prices for Products 1, 3, 4 and 5, you see a
6 different trend than for Products 2 and 6 from the beginning
7 to the end. And so I wonder, again, you don't have to
8 answer this now, but you might, unless you have a theory
9 that you can talk about, why do we see a different price
10 trend for those products?

11 MS. CANNON: I think we'd have to do that
12 post-hearing.

13 COMMISSIONER SCHMIDTLEIN: Okay. And then the
14 witnesses have discussed the fact that they produce the
15 vertical file cabinets on dedicated equipment with dedicated
16 employees. Can you talk about, again, if you wanna do this
17 post-hearing, that's fine, but can you talk about, or
18 elaborate on, what would be necessary for you to switch to
19 producing alternative products? What types of changes would
20 you have to make to equipment and, you know, would there
21 have to be additional training, different skill sets needed
22 for the employees?

23 MR. WETTERBERG: This is Brandon with Hirsh. I
24 can't get into a lot of the specifics. We can do that in
25 the post-conference, but generally, what you stated is

1 correct. Certainly would require retraining of employees
2 and significant capital investments to the equipment. The
3 details we can provide in the post-conference.

4 COMMISSIONER SCHMIDTLEIN: Okay. All right.
5 That would be helpful if you could do that post-conference.

6 MR. BAILEY: If I could, this is Tom. I will
7 tease a little bit. Your staff, or members of the
8 Commission, did see our production facility and these
9 products have one unique characteristic. And that is that
10 they're heavy-standardized, you know, two widths,
11 correspondence has two different paper widths, they have
12 been around for a very long period of time, so the
13 industry, the customer knows what they want. When you say
14 filing cabinet, steel filing cabinet, everyone knows what it
15 is.

16 So, because it's so highly standardized, and
17 there's a considerable volume of them sold, highly
18 standardized, large-volume production lends itself towards
19 tremendous amounts of automation, especially to get costs
20 down. And our production facility is enormously efficient.
21 You can talk to the staff. Some people visited.

22 And so you have the advantage of high-automation
23 and high-throughput, which leads to very low costs, but the
24 major disadvantage is flexibility. It doesn't need to be
25 flexible because it's making a low-mix, high-volume set of

1 production items, right? And so to change this into a
2 radically different product would be extraordinarily
3 expensive. A lot of the capital would just have to be
4 thrown out.

5 COMMISSIONER SCHMIDTLEIN: Well, even to change
6 to a pedestal cabinet or a horizontal cabinet --

7 MR. BAILEY: Well, there's a reason why this is a
8 unique product category. We do make the lateral files in
9 the same facility as Dover and it's a completely different
10 production line. The only thing it shares is the paint
11 system. We have a common paint system. Paint systems are
12 quite expensive. But everything else is different.

13 COMMISSIONER SCHMIDTLEIN: Okay. What is the
14 life span for a vertical file cabinet? How long do they
15 usually last?

16 MR. WETTERBERG: So, BIFMA doesn't have a life in
17 terms of number of years. Their testing requires numbers of
18 cycles, so your product has to survive, say, 50,000 opening,
19 closing of the drawer cycles. So how long that lasts is
20 gonna be dependent upon use. But I think, for many people,
21 this is ten or more years of typical office use.

22 COMMISSIONER SCHMIDTLEIN: Okay.

23 MR. BAILEY: Though I would -- this is Tom from
24 Hirsh -- I would add that the products are so efficient,
25 they're such high-value products, quality-to-price, if you

1 will, that they can last for fifteen, twenty years.
2 Probably you have some in your office or maybe in your
3 basement, you know, you see these ancient filing cabinets
4 and they're still in great condition, but because so much
5 cost has been taken out, they can also be almost
6 disposable.

7 So let's say that you're a college student, you
8 need a filing cabinet your freshman year and you don't wanna
9 bring it home, you're not gonna ship it home, maybe can't
10 keep it on campus, you might just throw it away and buy a
11 new one. So if you're getting at the idea of, you know,
12 latent demand, you know, are you competing with yourself
13 because it's a durable item --

14 COMMISSIONER SCHMIDTLEIN: Right. Yeah, that's
15 my next question, right. How does all this surge in sales,
16 surge in consumption, how is that gonna affect future
17 demand? How is the fact that, you know, apparently
18 consumption has surged so much over the last few years? Is
19 that gonna have impact on future demand for these things
20 because they last so long?

21 MR. BAILEY: It's hard to say. They can last,
22 but they don't need to last, because many people are happy
23 to dispose of them. Maybe they want a new color, you know,
24 there's some trends for new colors and they have black or
25 gray and they want something different. So they'll replace

1 the file for that reason.

2 MR. WETTERBERG: I would add that a lot of file
3 cabinet purchases are tied to new business creation. So
4 just because an old business goes out of business doesn't
5 mean that file cabinet can transfer easily or efficient to a
6 new business. So we do see one of the drivers of demand is
7 new business creation.

8 COMMISSIONER SCHMIDTLEIN: Okay, all right.
9 Thank you very much. I have no further questions.

10 CHAIRMAN JOHANSON: Commissioner Kearns.

11 COMMISSIONER KEARNS: I think I have just one
12 more question. This discussion of direct imports has been
13 helpful. So I just wanted to follow up on something that
14 Commissioner Karpel had asked about. Ms. Cannon, in
15 response to a question, I think you mentioned that there are
16 some capital expenses that are traditionally incurred by
17 importers, but now are incurred in some cases by retailers,
18 I think you mentioned barges as an example.

19 You mentioned that the service costs associated
20 with direct imports are already accounted for, but the
21 capital costs are not, are they?

22 MS. CANNON: The capital costs --

23 COMMISSIONER KEARNS: Well, you mentioned barges.
24 I don't know much about this, but I don't know how that
25 works, but --

1 MS. CANNON: Well, when we're referring to the
2 container ship, the costs of the ocean freight, the costs of
3 everything bringing it over to the United States, my
4 understanding is the way that your questionnaire asks for
5 it, there's a footnote and it says, "Please report all the
6 costs that are incurred," basically, "in shipping the
7 product across the ocean."

8 So my assumption is that in response to that, all
9 of those types of costs that would be associated with ocean
10 freight, anything that would be related to that would be
11 reported as part of that price, so that you've got an FOB
12 price. That was the intent of the question.

13 COMMISSIONER KEARNS: Yeah, that makes sense. I
14 was still just trying to think if there's something, I
15 guess, after we get to the dock, if there's some sort of
16 capital expenditure that a retailer would incur that's not,
17 you know, accounted for in terms of some sort of service fee
18 along the way.

19 I mean, obviously, I think, you know, one example
20 would be, well, if it has to build a whole new warehouse,
21 where it used to have the importer do that, now, I think
22 your answer to that would be, yeah, and our product goes
23 into the warehouse just like the imported product.

24 So I can't think of anything else in this other
25 category, but I do wonder if there's any costs along the way

1 there for, you know, that are more capital expenditure as
2 opposed to, you know, service fees type of things that we
3 should think about.

4 MS. CANNON: Right. And that's what we said.
5 We've had these sort of dialogues in past cases in some of
6 the other products, and when those questions have been
7 asked, I haven't heard any of the direct importers
8 articulate what those specifically would be. They've
9 referred to ocean freight, they've referred to inland
10 freight, which as I said, is already out of our product.
11 And there's, you know, an inventory would apply to inventory
12 in the Hirsh product, too. So that's where I think it
13 breaks down, is what differentiates it.

14 COMMISSIONER KEARNS: Okay. That's all I have.
15 Thank you very much.

16 MR. BAILEY: If I could, maybe I could add a
17 little bit to this. So one thing that is probably different
18 over the last ten years is pretty much every one of our
19 largest customers, they've got massive sourcing groups, and
20 they generally have offices in China. They set that up
21 years ago and as both the scale and the scope of what they
22 buy increases, it becomes the marginal cost of adding
23 something else that's sort of a ride-along in a ship that
24 they may own or rent. But they're bringing it across
25 anyway, is very, very small.

1 And in traditionally accounting, any fixed costs,
2 they do get depreciated, so it should show up as a cost
3 somewhere. But the marginal cost would be very negligible
4 because you've already built this entire infrastructure to
5 do so much sourcing from China.

6 And you've heard the anecdote, one of the world's
7 largest retailers, they once said that if it were a country,
8 it'd be China's six largest trading partner. They've got an
9 office in China. They're buying tons of stuff in China.
10 And so, you know, it's a completely different way of doing
11 it than perhaps fifteen or twenty years ago, I imagine.

12 COMMISSIONER KEARNS: Yeah, I think that's right.
13 Okay, thank you very much.

14 CHAIRMAN JOHANSON: Commissioner Stayin.

15 COMMISSIONER STAYIN: Thank you. With respect to
16 the appearance of China in any significant way in 2016, what
17 was the date when you had the disagreement with that large
18 box buyer over your contract obligations?

19 MR. JENSEN: We got notification in April of 2016
20 that the purchase orders that we had received were the last
21 ones we were gonna get.

22 COMMISSIONER STAYIN: And was this the same time
23 and the same occurrence when you had the disagreement over
24 passing your costs onto that buyer? Increased costs?

25 MR. JENSEN: We'd rather discuss a

1 customer-specific issue post-hearing.

2 COMMISSIONER STAYIN: There have been -- it seems
3 to me that there might be a connection between the fact that
4 there was this huge increase in volume with the, also, the
5 loss of that big-box buyer from you, and they're switching
6 to China. And that's really, if you have any information
7 that you can pass on, that would be helpful maybe in your
8 post-hearing --

9 MR. BAILEY: Commissioner Stayin, this is Tom
10 from Hirsh. Are you asking, does that loss correspond to a
11 surge in Chinese imports into the United States? Is that
12 what you're asking?

13 COMMISSIONER STAYIN: Loss of sales to that
14 particular client.

15 MR. BAILEY: Yes, absolutely. It was a major
16 buyer of vertical files that took their business to China
17 and you've seen, from the information that's been submitted
18 to the committee that buying is highly concentrated, so
19 there's a handful of buyers that make up most of the
20 consumption, not all of it, but this is one of the largest
21 buyers in the United States.

22 COMMISSIONER STAYIN: Another question on a
23 different subject. With respect to the processes of
24 production and equipment, do you use the same equipment as
25 the Chinese? Is their process the same, to your knowledge?

1 MR. BAILEY: We think not. Our production
2 equipment is highly automated and without divulging too many
3 details, you did have some staff who visited the facility, I
4 will give you a little bit of a feel for it. So we're
5 making, basically, metal furniture. You can think of a
6 vertical file as -- it's a metal box, it's metal furniture
7 -- yet the way it is made has an awful lot in common with,
8 you know, continuous process industries.

9 I started my career at Procter & Gamble. We used
10 to make disposable diapers where you have rolls of nonwoven
11 and other materials feeding into a line, and we have been
12 able to do something extraordinary.

13 We do things that we've already testified that,
14 you know, we pioneered things like folding steel to
15 eliminate welds. It would be inconceivable that China could
16 come up with this just in a year or two. It took us about
17 thirty years to come up with it. And we continue to
18 innovate. We continue to invest. This is our lifeblood and
19 we're very proud of what we've achieved. There's no way
20 that they could do this as efficiently as us. And, you
21 know, a lot of the equipment's depreciated.

22 So you also have to consider, you know, back to
23 Mr. Kearns' question around fixed costs, they have capital
24 costs--and those are real costs--that they are incurring if
25 -- you know, let's say they're not making it and suddenly

1 they're making it, got to tool up the factory, and that is a
2 real cost. Capital expenditure is a real cost. It throws
3 through there, you know, as depreciation. Ours are
4 substantially depreciated, our equipment.

5 COMMISSIONER STAYIN: Thank you. That's all for
6 me, thank you. No further questions.

7 CHAIRMAN JOHANSON: Commissioner Karpel?

8 COMMISSIONER KARPEL: Yes, thank you. Sorry,
9 just to go back to the direct imports again one more time.
10 And I think we started, we've gotten to a good discussion on
11 this. I've learned a lot, I really appreciate the
12 responses. Just one more follow-up in terms of the costs
13 that an importer retailer might incur.

14 So I imagine now as this trend to source directly
15 from the foreign producer is common, they must be setting up
16 departments within their company that specialize in
17 developing these relationships with foreign producers,
18 figuring out how you import product, what are the rules,
19 what are the sort of knowledge -- and developing the
20 knowledge needed to do that. Now, I also heard that these
21 big-box retailers are importing all sorts of products. And
22 so maybe they're able to allocate the costs of developing
23 that expertise and that knowledge across many product lines.
24 So it may be a small amount.

25 But would you agree, there's some amount of costs

1 that these big-box retailers are having to put in to develop
2 these employees and their expertise and their knowledge to
3 sort of become importers themselves versus just simply going
4 to an importer who's gonna take on that sort of service and
5 knowledge development themselves?

6 MS. CANNON: I'm assuming that they're going to
7 have to set up some type of something in there, but at the
8 same time, you have to recognize that when they're buying
9 from a U.S. producer, they also have to have selling
10 expenses and general expenses associated with reaching out
11 to the Hirshes of the world and talking with them and
12 negotiating with them. And so those types of expenses
13 aren't being accounted for any way.

14 When you look at your prices, it's just looked at
15 as a basic selling expense of a company. And that's where
16 I'm starting, you know, that's where it becomes difficult to
17 say, how is this so different? And particularly, as you
18 say, you're dealing with these big-box stores that have huge
19 arms that are importing all kinds of products. This is just
20 one type of many products that's part of that infrastructure
21 that's already been developed and existing. So you're not
22 talking about any real significant cost that's additional to
23 what would be associated with having to buy from a U.S.
24 company.

25 MR. LUBERDA: Commissioner, this is Alan Luberda.

1 I think a lot of people have the same sort of question that,
2 "Gee, there must be some difference," when they take on this
3 additional activity. But, you know, as Kathy said, we've
4 tried to identify where the difference is, and the staff's
5 done a good job of taking out where those differences might
6 be.

7 But once that product hits the United States,
8 they have exactly the same logistical overhead costs that
9 anybody would have, whether they're buying domestically or
10 import. If they're buying FOB Hirsh's factory, they have to
11 have all that expertise to set up the transportation
12 networks in the United States to get it from Hirsh to their
13 various distribution points and into the stores.

14 That's the same thing they're doing with their
15 import operation. It takes all that expertise. So they
16 have an overall logistical setup. That expense is the same.
17 That activity is the same whether you're bringing it from
18 China or you're bringing it from the United States. And so
19 what the staff has done over time has been to take out the
20 parts that are different, so you gotta account for the ocean
21 freight.

22 Once it gets to an FOB port versus FOB factory at
23 Hirsh, all those expenses, logistical overhead, it's the
24 same. And I think, because it was different in the past,
25 people, you know, we've struggled with trying to make sure

1 that you've actually taken account of all those differences.
2 As far as we can tell, we think the staff has done that in
3 its questionnaire at this point.

4 And, you know, absent being able to identify
5 particular costs that aren't being accounted for, we think
6 that, you know, you can reasonably rely on these prices
7 being compared as being at the same level of trade, the same
8 customer facing the same general expenses and specific
9 expenses in order to get that product that compete
10 head-to-head.

11 MR. KERWIN: And if I could add, as Mr.
12 Wetterberg mentioned before, the certification process for
13 the customer is the same, whether the product's coming from
14 the United States or from China. And, you know, to the
15 extent you want to take on a new supplier in China, yeah,
16 you may wanna go to their factory. But the same thing is
17 true in the United States. If you're taking on a new
18 supplier, typically, the buyers will go to inspect the
19 facility and make sure that it's up to their standards. So
20 all those things apply, whether it's happening in the United
21 States or in China.

22 MR. BAILEY: This is Tom, I'll add one more. I'm
23 sorry. We're beating this pretty hard. But, another thing
24 to consider is if you have a procurement group that's in,
25 you know, say, West Des Moines, Iowa, versus Guangzhou,

1 China, you're gonna pay the staff considerably differently
2 most likely. You know, the days of Expats running some
3 Chinese sourcing group in Guangzhou are long gone. Those
4 are gonna be Chinese staff who are most likely gonna be paid
5 at a significantly lower level. Seems there'd be more
6 activities for argument sake, their rate will be
7 substantially less. So it isn't necessarily more cost.

8 COMMISSIONER KARPEL: I was curious about some of
9 the information on inventories on Page 2-9 of the staff
10 report. And it talks specifically about lead times for
11 inventory. And then there's also some discussion on Page
12 2-10 of the staff report about availability, or at least
13 perceptions of availability. I wondered if you could talk
14 about, if there's any connection between, sort of the lead
15 times on getting inventories out and this perception about
16 availability.

17 MS. CANNON: We may need to address the specifics
18 in our post-hearing brief, I believe, if you're looking at
19 the specific numbers. I could say, generally, there've been
20 no problems with lead times or delivery in terms of being
21 able to supply the product. In fact, as you see from the
22 capacity utilization, we have ample supply and the lead
23 times are better for the United States generally than for
24 the imports. But we can address the specific numbers in our
25 post-hearing brief.

1 COMMISSIONER KARPEL: Thanks. And this is a bit
2 on the conditions of competition. We talked about earlier
3 about how internet sales are affecting price. We talked
4 about how there's an increasing concentration of purchasers.
5 And I wondered if you could elaborate a little bit about the
6 price effects of those two developments in the market, and
7 whether they're having this downward pressure on price?

8 We've heard also about the imports and their
9 pricing and pricing pressures. But I wondered if you could
10 talk about whether any of those pricing pressures may be
11 from other elements that were seen in the market, internet,
12 concentration of purchases as compared to subject imports
13 and the impact they're having.

14 MR. JENSEN: We can address that post-hearing.

15 MS. CANNON: Let me just elaborate. I think it's
16 not an either/or. The internet sales phenomenon is one that
17 we were highlighting as a phenomenon that expands the import
18 pricing. So it's not that it's internet versus the imports.
19 It's that when the import prices hit, in the old days when
20 you didn't have such transparency as you do now with a
21 product like this that's sold, you might not know, other
22 people might not know as rapidly what those import prices
23 were.

24 In today's age, when you have the internet sales
25 and everything's just up there immediately, all the other

1 retailers know where the China prices are, and where they
2 have to go to try to be competitive. So it's a phenomenon
3 that expands the sales.

4 Similarly, the concentration of the purchaser
5 base, when you have a purchaser that buys a lot-priced
6 import in such a small market, then everybody knows about it
7 and that sale is such a huge impact because there's just not
8 that many of them. So it's not an either/or, I think. It's
9 a combination of the two, and that's why we characterized it
10 as a condition of competition, as opposed to a cause.

11 COMMISSIONER KARPEL: Do you expect to see some
12 downward pressure on price absent subject imports because of
13 those two phenomenon?

14 MS. CANNON: No, and in fact, those two
15 phenomenon continue to exist and yet, as you heard Mr.
16 Bailey testify, they've been able to increase prices now,
17 once the Chinese unfair prices were offset.

18 COMMISSIONER KARPEL: Just one more question.
19 I'm running out of time here. But -- and you can address
20 this in the post-hearing brief. But I was just wondered,
21 curious if you agreed with the staff's methodology for
22 calculating subject import volume, that appears in 4-1 of
23 the staff report.

24 MS. CANNON: Yes, we support that methodology.
25 We realize that you didn't get a perfect response to the

1 importer questionnaires and so staff has come up with, I
2 think, a reasonable method of estimating that. We also
3 presented in our brief a very conservative estimate that
4 said, even if you didn't do the additional analysis that
5 they did and you simply looked at the importer questionnaire
6 data that you know has been reported, you still see this
7 significant surge in market share shift. So either way, the
8 data support that. But I think their attempt to account
9 for the missing questionnaires was reasonable.

10 COMMISSIONER JOHANSON: All right, I have just
11 one more question. You note that some contracts include raw
12 material index clauses, but that these have not been
13 effective during the period of investigation. And this is
14 at Pages 13 to 14 of your prehearing brief. Have these
15 clauses been more effective in the past?

16 MR. BAILEY: Yes, they have. They've been
17 honored. And these predate China. And, but what's
18 different is, once the Chinese competition has entered the
19 market, in several instances, we have not been able to get
20 increases where we're due and with rising steel, the
21 industries have tended to go up. But steel is volatile, and
22 sometimes steel does go down, and it's relative, right, so
23 it might go up this quarter, go down. When it goes down,
24 they always take it. And when it goes up, then there's been
25 push-back in some cases. So we're not able to get pricing

1 we are due.

2 In addition, we've had inflationary pressures on
3 other input costs. The economy's done well, wages are
4 growing again. It's a real cost. Now, our responsibility
5 is to offset that as much as possible with automation,
6 productivity improvements, but there are real costs, and
7 some which are galloping ahead of traditional inflation,
8 like, healthcare costs, which go into the costs of
9 employees. So labor's been going up, packaging has been
10 going up. Packaging is a significant cost.

11 And so traditionally, we'd be able to go and,
12 aside from the price escalator agreements, be able to
13 negotiate increases. And we have not been able to get
14 increases in many cases. Or if we do get increases, they
15 don't cover the cost of inflation, which is why you see the
16 deteriorating financial performance that you've seen.

17 MR. WETTERBERG: I'd like to add, however, that
18 we did secure price increases after the preliminary
19 determinations were put in place.

20 CHAIRMAN JOHANSON: Okay, thank you. Thank
21 concludes my questions. Commissioner Schmidtlein?
22 Commissioner Kearns? Do any other Commissioners have
23 questions? Commissioner Karpel? Okay, then we have no
24 further questions. Do staff have any questions for this
25 panel?

1 MR. COMLY: Nate Comly, Office of Investigations.
2 Staff has no questions.

3 CHAIRMAN JOHANSON: Okay. Then, thank you all
4 for appearing here today. Let's now move onto the closing
5 statement.

6 CLOSING STATEMENT OF KATHLEEN W. CANNON

7 MS. CANNON: Thank you, Chairman Johanson, I'll
8 be brief. I just wanna thank you all for your attention
9 today. There's obviously nothing to rebut. I will express
10 my appreciation for all of your questions on the direct
11 import issue. I think it's one of the most important issues
12 facing the Commission today, because the market dynamics in
13 this and many other industries have shifted radically from
14 the old days when I first started practicing and we didn't
15 have this phenomenon.

16 And it's become one of the most injurious forms
17 of adverse price effects that industries--like the vertical
18 files industries--faces, so an attempt to compare these
19 prices and take into the account the injury they are causing
20 to industries like Hirsh and the other U.S. producers of
21 vertical files is critical. So I thank you for paying
22 attention to that issue. I thank you for your attention
23 today and we look forward to answering your questions in our
24 post-hearing brief.

25 CHAIRMAN JOHANSON: All right. Thank you again

1 for appearing here today. I'll now make the closing
2 statement. Post-hearing briefs, statements response to
3 questions and requests of the Commission, and corrections to
4 the transcript must be filed by October 15th, 2019. Closing
5 of the record and final release of data to parties occurs on
6 November 1st, 2019, and comments are due on November 5th,
7 2019. With that this hearing is adjourned.

8 (Whereupon the meeting was adjourned at 11:32
9 a.m.)

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CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Vertical Metal File Cabinets from China

INVESTIGATION NOS.: 701-TA-623 and 731-TA-1449

HEARING DATE: 10-8-19

LOCATION: Washington, D.C.

NATURE OF HEARING: Final

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: 10-8-19

SIGNED: Mark A. Jagan

Signature of the Contractor or the
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I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings 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 proceedings.

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