

# UNITED STATES INTERNATIONAL TRADE COMMISSION

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

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Place: Washington, D.C.  
Date: Tuesday, May 21, 2019



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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 ) (PRELIMINARY)

Main Hearing Room (Room 101)  
U.S. International Trade  
Commission  
500 E Street, SW  
Washington, DC  
Tuesday, May 21, 2019

The meeting commenced pursuant to notice at 9:30  
a.m., before the Investigative Staff of the United States  
International Trade Commission, Nannette Christ, Director of  
Investigations, presiding.

1 APPEARANCES:

2 Staff:

3 William R. Bishop, Supervisory Hearings and  
4 Information Officer

5 Tyrell T. Burch, Management Analyst

6

7 Nannette Christ, Director of Investigations

8 Craig Thomsen, Supervisory Investigator

9 Jessica Oliva, Investigator

10 Karl Tsuji, International Trade Analyst

11 Pamela Davis, International Economist

12 Samuel Varela-Molina, Accountant/Auditor

13 Robin Turner, Attorney/Advisor

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1 APPEARANCES:

2 Opening Remarks:

3 In Support of Imposition (Kathleen W. Cannon, Kelley Drye &  
4 Warren LLP)

5

6 In Support of the Imposition of Antidumping and  
7 Countervailing Duty Orders:

8 Kelley Drye & Warren LLP

9 Washington, DC

10 on behalf of

11 Hirsh Industries LLC

12 Thomas Bailey, President and CEO, Hirsh Industries LLC

13 Brandon Wetterberg, Director of Product Management,  
14 Hirsh Industries LLC

15 Dave Jensen, Vice President for Sales, Hirsch  
16 Industries LLC

17 Michael T. Kerwin, Assistant Director, Georgetown  
18 Economic Services LLC

19 William B. Hudgens, Senior Trade Analyst, Georgetown  
20 Economic Services LLC

21 Kathleen W. Cannon, R. Alan Lubberda and Joshua R. Morey  
22 - Of Counsel

23 Rebuttal/Closing Remarks:

24 In Support of Imposition (Kathleen W. Cannon, Kelley Drye &  
25 Warren LLP)

## I N D E X

1		
2		Page
3	In Support of Imposition (Kathleen W. Cannon, Kelley Dye &	
4	Warren LLP)	6
5		
6	Thomas Bailey, President and CEO, Hirsh Industries LLC	10
7		
8	Brandon Wetterberg, Director of Product Management, Hirsh	
9	Industries LLC	18
10		
11	Joshua R. Morey, Kelley Dye & Warren LLP	24
12		
13	In Support of Imposition (Kathleen W. Cannon, Kelley Dye &	
14	Warren LLP)	80
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

## P R O C E E D I N G S

1  
2  
3  
4  
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9:31 a.m.

MR. BISHOP: Will the room please come to order?

MS. CHRIST: Good morning and welcome to the U.S. International Trade Commission's conference in connection with the preliminary phase of Antidumping and Countervailing Duty Investigation Nos. 701-TA-623 and 701-TA-1449 concerning vertical metal file cabinets from China.

My name is Nannette Christ. I am the Director of Investigations and I will preside at this conference. Among those present from the Commission Staff are from my far right: Craig Thompson the Supervisory Investigator, Jessica Oliva the Investigator, Robin Turner the Attorney Advisor, Pamela Davis the Economist, Sam Varela-Molina the Accountant Auditor and Karl Tsuji the Industry Analyst.

I understand that parties are aware of the time allocations.

Any questions regarding the time allocations should be addressed with the Secretary. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphones.

We also ask that you state your name and affiliation for the record before beginning your presentation or answering questions for the benefit of the

1 court reporter. All witnesses must be sworn in before  
2 presenting testimony. Are there any questions? Mr.  
3 Secretary, are there any preliminary matters?

4 MR. BISHOP: No, Madam Chairman.

5 MS. CHRIST: Thank you very much, Mr. Secretary.  
6 We will begin with opening remarks.

7 MR. BISHOP: Opening remarks on behalf of those  
8 in support of imposition will be given by Kathleen W. Cannon  
9 of Kelley, Drye and Warren. Ms. Cannon, you have five  
10 minutes.

11 STATEMENT OF KATHLEEN W. CANNON

12 MS. CANNON: Thank you. Good morning Ms. Christ  
13 and Members of the Commission Staff. I'm Kathleen Cannon of  
14 Kelley Drye appearing today on behalf of the Petitioner  
15 Hirsch Industries.

16 Our case today involves a new product to the  
17 Commission but a story you have heard many times. Yet  
18 another U.S. Industry is struggling to stay alive due to  
19 unfairly traded import competition from China. The product  
20 at issue today is vertical metal file cabinets. You likely  
21 have these cabinets in a file room here at the Commission.  
22 We certainly have plenty of them in our law offices.

23 As our witnesses will discuss, vertical files are  
24 freestanding metal storage units. They are used to file and  
25 store documents and permit ready retrieval of the paper

1 documents. Vertical files are generally produced from  
2 cold-rolled steel or corrosion resistant steel.

3 As fabricated steel products, vertical files have  
4 benefitted from the largess of the Chinese government which  
5 subsidizes and encourages the export of these downstream  
6 fabricated steel products. Unfortunately, those exports  
7 have had a devastating effect on the competing Domestic  
8 Industry.

9 The Petitioner, Hirsh Industries, is the largest  
10 manufacturer of vertical files in the United States. It has  
11 a highly efficient production operation and takes pride in  
12 the quality and in the innovations it has developed and  
13 implemented. Despite its efficient operations Hirsch has  
14 been increasingly unable to compete with the unfairly  
15 low-priced imports from China, leading it to file this trade  
16 action.

17 As you have seen in other cases involving  
18 fabricated steel products, the Chinese Producers are able to  
19 produce products that are interchangeable with the U.S.  
20 Product and that meet the specifications of U.S. Customers,  
21 but they price those products at absurdly low levels in an  
22 attempt to gain U.S. market share.

23 That market share, of course, comes at the  
24 expense of competing U.S. Producers. That exact scenario  
25 has occurred in the vertical files industry. As the record

1 data show, the Chinese vertical file producers have been  
2 able to increase sales to the U.S. Market significantly  
3 since 2016.

4 China accounts for a sizeable share of the U.S.  
5 Market and that share has grown significantly from 2016 to  
6 2018. Notably, those increasing import volumes took place  
7 while demand for this product has declined modestly.

8 Vertical files is a mature category and demand  
9 has been in a slow decline that has continued over the past  
10 few years. Chinese Producers nonetheless increased exports  
11 to the market resulting in displaced Domestic Industry sales  
12 and market share as well as reductions in non-subject import  
13 market share.

14 How did that rapid import market penetration by  
15 China occur? Based on low prices that undercut U.S.  
16 Producer prices as you've seen in many other cases. The  
17 underselling by China has caused U.S. Producers to lose  
18 sales and has placed downward pressure on U.S. Producer's  
19 prices. There are a relatively small number of major  
20 purchasers of vertical files in the United States, so losing  
21 any account is significant.

22 Hirsch lost a major account to unfair imports  
23 from china that undercut its price in 2018, leading to  
24 significant trade and financial declines. Even those  
25 accounts that remain loyal to Hirsch pressure its pricing as

1 they are aware of competing offers from China.

2 At a time of rising costs, Hirsch has not been  
3 able to increase its prices as needed due to the import  
4 pricing pressures leading to price suppression and declining  
5 profits. Nor is Hirsch the only U.S. Producer experiencing  
6 these problems. You have received questionnaire responses  
7 from other U.S. Producers that document similar injury  
8 caused by low unfairly traded prices of Subject Imports.

9 The decline in the industry's overall trade and  
10 financial variables in just two years has been severe.  
11 Production, shipment, employment, net sales and  
12 profitability have all plummeted. Capacity utilization in  
13 this industry is at an appallingly low level. Information  
14 we have gathered on first quarter 2019 performance shows  
15 that those declines are continuing and growing even worse.

16 Perhaps it is knowledge of the compelling facts  
17 showing injury here that has led to no party appearing to us  
18 in opposition today. There is no question that this injury  
19 will continue if left unchecked. Chinese Producers of  
20 vertical files have enormous capacity. They are  
21 export-focused and the U.S. Market is a major target of  
22 those exports.

23 The Chinese government continues to subsidize the  
24 production of these files and encourage their export. The  
25 U.S. tariffs that have been imposed to date on China have

1 not prevented imports from increasing or the resulting  
2 injury to this industry. Relief is badly needed to prevent  
3 the vertical files industry from becoming yet another in a  
4 long line of U.S. Industries that have gone out of business  
5 due to unfairly traded imports from China.

6 We urge the Commission to issue an affirmative  
7 preliminary determination as the first step toward restoring  
8 fair trade conditions in this market. Thank you.

9 MR. BISHOP: Thank you, Ms. Cannon. Madam  
10 Chairman, the Panel in support of the imposition of  
11 antidumping and countervailing duty orders have been seated.  
12 All witnesses on this panel have been sworn in. This Panel  
13 has 60 minutes for their direct testimony.

14 MS. CHRIST: Thank you. Welcome to all the Panel  
15 members. Please begin when ready.

16 STATEMENT OF THOMAS BAILEY

17 MR. BAILEY: Good morning. My name is Tom Bailey  
18 and I am the President and CEO of Hirsch Industries, LLC.  
19 I've been with Hirsch and involved in the vertical metal  
20 file cabinets industry since 2014. Hirsch is the largest  
21 producer of vertical files in the United States. We have a  
22 substantial production facility in Dover, Delaware and our  
23 corporate headquarters are located in West Des Moines, Iowa,  
24 which is where our precursor company got its start nearly a  
25 century ago in 1924.

1                   I'm here this morning to discuss our motivations  
2                   for filing this case and the destructive impact that unfair  
3                   imports from China have had on my company and on our  
4                   industry.

5                   I'm a big believer in free markets and generally  
6                   feel that healthy competition should be allowed to determine  
7                   who wins and who loses in the marketplace but it has become  
8                   apparent over the last few years that producers of Vertical  
9                   files in China do not play by the same rules as both we and  
10                  our domestic competitors do.

11                  Hirsch has made a commitment to being an  
12                  efficient producer of vertical files. For decades now we  
13                  have made major capital investments in our Dover Facility in  
14                  order to automate a large portion of our production  
15                  processes. One of our big innovations was pioneering the  
16                  folding of cold-rolled steel for the cabinet shell and body,  
17                  which eliminated welds, increased throughput, and reduced  
18                  material usage and scrap.

19                  As a result of our automation efforts we believe  
20                  that our Dover location is the most efficient facility  
21                  producing vertical files in the world. We know that the  
22                  Chinese Industry does not have any production advantages  
23                  over us and we should readily be able to compete with China  
24                  in our own home market.                That has not proven to be the  
25                  case. Over the last three years we have seen Chinese

1 Imports offered at prices that dramatically undercut our  
2 prices and that seem completely disconnected from the actual  
3 cost to produce the product. As a result these imports have  
4 taken large sales volumes from us and have held down prices  
5 in the U.S. Market during a time of rising raw material  
6 costs.

7 Vertical files are highly interchangeable  
8 regardless of their manufacturer or country of origin so  
9 price drives sales. While vertical files are sometimes  
10 produced to an individual customer's specifications, these  
11 do not vary significantly. Most Chinese vertical file  
12 producers are capable of meeting U.S. customer  
13 specifications.

14 In fact, Chinese Producers have produced  
15 prototypes of our Hirsch products to physically demonstrate  
16 to our customers that they can meet the exact same  
17 specifications as our vertical files we produce for them and  
18 at a substantial discount in relation to Hirsch's pricing.

19 There are a relatively small number of purchasers  
20 such as big box retailers that account for the vast majority  
21 of the purchases of vertical files in the U.S. Market.  
22 Concentration of the purchaser base has increased in recent  
23 years with a notable development occurring at the beginning  
24 of 2019.

25 A major retailer of office supplies purchased and

1 merged with one of the largest distributors of office  
2 supplies. This concentration of purchasers has had a  
3 notable impact in terms of price pressures in the market.  
4 In fact, just a few weeks ago in April this new combined  
5 company sent out a joint announcement that they expect  
6 suppliers to significantly reduce prices via increased  
7 allowances and to make these retroactive to January 1, 2019.

8 As you have seen from the information we have  
9 placed on the record, in early 2018 Hirsch lost nearly all  
10 of its sales of vertical files at one of the major U.S.  
11 office product retail accounts to imports from China. This  
12 customer switch was done strictly on the basis of price.

13 While we were given no advance notice of this  
14 change we were later told expressly that Chinese Imports  
15 were priced well below Hirsch's products. Because of this  
16 customer's size that lost sale has had a devastating impact  
17 on Hirsch's sales and profitability on vertical files.

18 Due to the intense level of competition in the  
19 marketplace and common knowledge among purchasers of the  
20 prices being offered by Chinese Imports, the move by this  
21 major account to source its vertical files using imports  
22 from China has generally also resulted in price pressures at  
23 essentially all of our large accounts. Even accounts that  
24 have remained loyal to Hirsch to date have explored their  
25 options in potentially sourcing their vertical files from

1 China. Thus they have firsthand information on the pricing  
2 being offered on the Chinese Imports.

3 We have great customers and we work hard to keep  
4 them happy and provide a higher level of service. In fact,  
5 Hirsch won a highly coveted award in March 2019 by one of  
6 our largest customers, a market-leading distributor in North  
7 America for outstanding service across all of their product  
8 categories last year. We were voted their top overall  
9 supply out of over a total of 400 suppliers.

10 But our good relationships with our customers do  
11 not prevent them from placing pricing pressure on us in our  
12 sales negotiations on vertical files. Frankly we understand  
13 why they place these pressures on us because they are facing  
14 similar price competition themselves. Their ultimate  
15 customer sees the pricing that could be offered by office  
16 supply dealers that are buying low-priced Chinese Imports.

17 Our customers have no option but to come close to  
18 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 China imports  
22 affect our sales even inn accounts that continue to purchase  
23 from Hirsch. These developments are not sustainable.

24 As you can see in the data reported by my  
25 company, the increasing volumes of low-priced imports from

1 China have caused Hirsch to suffer major declines in  
2 production, capacity utilization, production workers,  
3 shipments and operating profits. Our company actually  
4 showed an operating loss on our production and sales of  
5 vertical files in two of the last three quarters, the first  
6 time that has happened in many, many years.

7 As our multiple incurred costs have increased  
8 over the last couple of years we have been unable to obtain  
9 sufficient price increases to recover costs. We have been  
10 facing stiff price competition from Chinese Imports for a  
11 number of years with China undercutting our prices and  
12 causing us to lose sales and profits.

13 For example, in early 2017 we were pressured to  
14 forgo a contractually agreed price increase due to  
15 competition from Chinese Imports. The problem became even  
16 more acute after imposition of the Section 232 tariffs on  
17 steel in 2018. These tariffs increase our costs for  
18 cold-rolled steel. Because of the underselling of the  
19 competing Chinese Imports, we have not been able to increase  
20 prices for our vertical files to the level necessary to  
21 cover these higher costs. The end result has been a  
22 substantial decline in our profitability.

23 Customers are not willing to accept price  
24 increases when Chinese Imports are maintaining or even  
25 reducing prices seemingly without any connection to their

1 underlying costs. Just last year we attempted to get a  
2 price increase with one of our customers in order to cover  
3 rising input costs. This customer responded that they were  
4 not accepting any pricing increases and that the buyer who  
5 would be making the ultimate decision was actually traveling  
6 in China.

7           Again, purchasers know full well what prices are  
8 being offered by the Chinese Producers and they use that  
9 knowledge to suppress Hirsch's prices. I should also note  
10 that the 10 percent duty that was imposed on imports of  
11 metal file cabinets under the Section 301 announcement by  
12 the president has not allowed us to gain back any market  
13 share or get prices up to realistic levels.

14           Because the Chinese government has reduced the  
15 value of its currency and Chinese Producers have acted to  
16 absorb the duties, the price increase and tariffs has been  
17 essentially erased. After the filing of our Petition the  
18 President announced that he would be increasing the Section  
19 301 tariffs to 25 percent but it is too soon to know what  
20 affect that change may or may not have on the market place  
21 or for how long those tariffs will remain in place.

22           Importantly, the threat of 25 percent duties has  
23 been looming since last fall but we have received no new  
24 inquiries for vertical files as a result of that threat.  
25 Hirsch Industries is not a large, diversified company. Our

1 biggest product is vertical metal file cabinets and office  
2 storage solutions are the foundation of our company.

3 We do not have other divisions that can help to  
4 bring up the overall profitability of our company or other  
5 markets to see us through the tough times of vertical files.  
6 Our company really lives and dies based on this products  
7 success so we cannot sustain any lengthy period of operating  
8 losses on vertical files.

9 Hirsch has done a lot to keep our operations  
10 efficient and competitive. We are an innovator in our market  
11 and we have made capital investments to streamline and  
12 automate our production processes to keep costs down. We  
13 value our employees and encourage their suggestions for  
14 methods to improve profitability but these efforts have not  
15 been sufficient to keep us from losing market share to  
16 unfairly traded Chinese Imports or from being forced to  
17 sell at prices that fail to cover our costs.

18 We know that other U.S. Producers has either  
19 drastically cut back their production of vertical files or  
20 exited the business entirely. We are proud of the fact that  
21 we have been able to remain in the U.S. Market for vertical  
22 files but we cannot hold on for much longer.

23 Something must be done to remedy the unfair  
24 imports pouring in from China and displacing our sales. We  
25 need an improvement in U.S. Market pricing in order to

1 generate a reasonable return on our domestic operations. We  
2 hope that the Commission will take action on the unfair  
3 imports from China that are destroying our market and reach  
4 an affirmative determination in this investigation.

5 Thank you for your time and attention. Those are  
6 my remarks.

7 STATEMENT OF BRANDON WETTERBERG

8 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
9 Industries. Good morning. My name is Brandon Wetterberg. I  
10 am the Director of Product Management for Hirsh Industries,  
11 LLC.

12 I have been employed by Hirsh for 21 years. I  
13 have overlapping responsibilities for product design,  
14 marketing, and product engineering for Hirsh's vertical  
15 metal file cabinets.

16 I would like to discuss with you the product and  
17 industry that are the subject of this case and all of the  
18 challenges we have faced trying to respond to the unfair  
19 competition from imports of dumped and subsidized vertical  
20 files from China over the last few years.

21 I think everybody in this room probably has  
22 intuitive understanding of what a vertical metal file  
23 cabinet is. I'm sure you've seen them in the back office or  
24 storage area here at the Commission. Vertical files are  
25 free-standing metal storage units designed for the filing,

1 organization, and ready retrieval of paper documents. You  
2 can see a picture of a four-drawer vertical file on the  
3 first page of the product handout we provided.

4 Consistent with this file storage and retrieval  
5 purpose, vertical files have at least two extendable drawers  
6 of a size that will allow for hanging folders to hold either  
7 8-1/2 x 11 inch letter-sized documents, or 8-1/2 x 14 inch  
8 legal-sized documents. Thus, the cabinets are typically  
9 going to be 14-1/4 to 18-1/4 inches wide. Each drawer will  
10 also be 10 inches to 12 inches high to allow for file  
11 folders to hang.

12 Vertical files are usually between 18 and 28-1/2  
13 inches deep. As a picture on the second page of the product  
14 handout shows, they typically come in models with two to  
15 four file storage drawers. A four-drawer vertical file is  
16 about 52 inches tall. So you can see why they're called  
17 "vertical files" by everyone in the industry, because by  
18 their nature they have a depth and a height that are each  
19 greater than or equal to the width of the unit.

20 The tall, narrow design provides for efficient  
21 document storage with a small footprint. These features  
22 distinguish vertical files from other office storage units  
23 that you may have also seen: lateral file cabinets and  
24 pedestal storage units.

25 Lateral files are document and general office

1 storage units that are much wider than they are deep, and  
2 therefore much wider than vertical files. Lateral files  
3 typically have a width of 30 to 42 inches and tend to be  
4 heavier duty to hold more weight, and more complex and labor  
5 intensive to build.

6 The other metal office storage units you may have  
7 seen are known as pedestal cabinets. Pedestals are  
8 flexible, multi-purpose metal storage cabinets. Rather than  
9 just serving as functional document storage, pedestals are  
10 typically made to be office furniture, apart from an office  
11 furniture system. Under industry standards, they are no  
12 more than 31 inches in height, and they're most often much  
13 lower than that. This is because they are made to fit  
14 under, hang from, or support a desk or other work surface.

15 Because they are designed as office furniture for  
16 multi-purpose storage in conjunction with a desk, they  
17 typically have only one, or even no file size drawers.  
18 Instead, they often have a number of smaller drawers known  
19 as box or pencil drawers for storage of personal belongings  
20 and other office supplies at the desk side.

21 Pedestal units are commonly not free-standing.  
22 Many pedestals are made with open tops because they are  
23 meant to attach to a desk. When they are free-standing,  
24 they often come with padded seat tops. Again, pedestals are  
25 an office furniture product designed for multi-purpose work

1 station storage and may or may not include file storage.

2 While Hirsh manufactures vertical files, lateral  
3 files, and pedestals, these are all produced on different  
4 equipment, using different manufacturing processes. The  
5 production of pedestals, for example, is much less automated  
6 and more labor intensive than vertical file production.

7 Vertical files, lateral files, and pedestals are  
8 also each advertised and sold as separate product. If you  
9 look at our website and those of our domestic competitors,  
10 you will see that each of those office storage products is  
11 identified in separate product groupings.

12 The third and fourth pages of the product handout  
13 shows examples from the websites of Hirsh and Han  
14 distinguishing these different products.

15 The same product differentiation is true with our  
16 customers. You can go to the websites for Staples or Amazon  
17 for example and see that they too distinguish between  
18 vertical files, lateral files, and pedestals. We provided  
19 those examples at the end of our product handout.

20 Finally, this differentiation of product types is  
21 also consistent with the separate treatment of these  
22 products by the standard-setting entity for business  
23 furniture, the Business and Institutional Furniture  
24 Manufacturers Association commonly known as BIFMA.

25 As Tom testified, Hirsh is a leading producer in

1 the vertical file industry and is the largest producer of  
2 vertical files in the United States. Hirsh produces  
3 vertical files at our Dover, Delaware, plant. The lines on  
4 which we produce vertical files do not produce other  
5 products.

6 We are very proud of the high quality of our  
7 products and our innovations in the production process. The  
8 lines on which we produce vertical files are fast, highly  
9 automated, capable of producing multiple units per minute.  
10 That high efficiency in production innovation, however, has  
11 not prevented unfairly traded imports from China from  
12 harming Hirsh's vertical file business.

13 Chinese vertical file cabinets started arriving  
14 in the U.S. market in larger numbers. They did so at prices  
15 substantially lower than Hirsh's pricing. For awhile, our  
16 high quality, excellent customer service, product  
17 innovation, strong customer relationships allowed us to keep  
18 most of our business.

19 Circumstances have changed rapidly over the last  
20 couple of years, however. Price has become singularly  
21 important in the purchasing decisions, given the very low  
22 Chinese pricing. That focus on price is shifting purchasers  
23 away from Hirsh and toward Chinese imports.

24 Our customers now frequently shop for vertical  
25 files in China. Many even maintain purchasing offices in

1 China that allow them to go directly to the producers of  
2 these Chinese vertical files.

3 One of our major customers required us to send  
4 our product packaging to China so they could set a  
5 merchandise plan-o-gram for their vertical file offerings.  
6 This let the Chinese suppliers know the shelf space for  
7 which they were competing for vertical files, and with whom  
8 they were competing.

9 Another major customer recently told us that one  
10 of the major Chinese producers of vertical files already  
11 supplying the U.S. market had a complete lineup of Hirsh  
12 vertical files and prepared to quote prices for the entire  
13 line. Losing the entire line of products of a major  
14 customer would be devastating to our business.

15 We also know that our customers, whether they are  
16 traveling to China or not, generally are buying vertical  
17 files directly from the Chinese manufacturers and not  
18 through importer middlemen. These direct imports cut out  
19 middlemen expenses and make it all the more inexpensive to  
20 the customer. It also makes it all the more difficult for  
21 Hirsh to compete on the basis of price.

22 You can see from our 2018 results that we have  
23 suffered significant declines in U.S. production and  
24 shipments, and we are being forced to sell at prices that  
25 are causing us to lose money in order to compete with China.

1           A decline in volume was not the result of decline  
2           in demand. While there has been a slow erosion of demand  
3           for filing cabinets over the long term due to slowly  
4           declining office paper consumption, we have not seen any  
5           significant decline over the last few years.

6           There's still a significant market for vertical  
7           files. Hirsh has ample and increasingly idle capacity that  
8           we are unable to use due to the surge in unfairly traded  
9           imports from China. The significant decline in sales we saw  
10          last year was the result of our customers shifting to  
11          low-priced imports from China. That is the problem we need  
12          to address and why we are here today.

13          Thank you.

14                         STATEMENT OF JOSHUA R. MOREY

15          MR. MOREY: Good morning. My name is Josh Morey  
16          of the law firm, Kelley Drye & Warren, and I am here today  
17          representing the petitioner, Hirsh Industries, LLC. I will  
18          discuss a few legal points, largely focused on the domestic  
19          like product, and briefly on threat of material injury.

20                 The scope of this case covers vertical files,  
21          which are metal file cabinets that are less than 25" wide  
22          and have two or more extendable storage elements, or  
23          drawers, that are sized for storing documents. The  
24          Commission's six-factor test demonstrates that the domestic  
25          like product should mirror the scope.

1           As Mr. Wetterberg just testified, vertical files  
2           are produced from cold-rolled steel or other metals and have  
3           two or more drawers sized to permit hanging files. All  
4           vertical files are also less than 25" wide. Additionally,  
5           consistent with BIFMA's definition of vertical files, all  
6           vertical files in the market today have a depth that is  
7           greater than or equal to their width.

8           All vertical files are also freestanding. This  
9           means that vertical files are not designed to be attached to  
10          a desk or wall, but stand up on their own. The primary use  
11          of all vertical files is the storage and retrieval of legal  
12          and lawyer-sized documents.

13          Vertical files are produced in the United States  
14          using a largely automated manufacturing process that  
15          involves slitting, bending and punching of metal. The lines  
16          that are used to produce the vertical files at Hirsh are  
17          dedicated to the production of this product. No other  
18          products, including other types of file cabinets, are  
19          produced on these lines. Additionally, the employees  
20          involved in the assembly and packaging stages of the process  
21          are trained specifically to produce vertical files.

22          Based on their differing physical characteristics  
23          and uses, vertical files are not interchangeable with other  
24          metal storage products. As previously noted, vertical files  
25          are deeper than they are wide. This is in contrast to

1 lateral files, which are much wider and, as such, do not fit  
2 in the same spaces.

3 Additionally, vertical files are used primarily  
4 for storing and retrieving documents. Certain other types  
5 of metal storage, such as pedestals, are used to store a  
6 variety of office materials and may also be used as seating.

7 All vertical files are sold through the same  
8 channels of distribution. They are sold to big box office  
9 equipment and office supply stores and other  
10 brick-and-mortar and online retail outlets.

11 Producers and consumers perceive vertical files  
12 to be a single product line. As Mr. Wetterberg showed you  
13 just a few minutes ago, producers and retailers advertise  
14 vertical files separately from other types of filing and  
15 organizing metal furniture. Moreover, consumers distinguish  
16 vertical files from other types of metal storage based on  
17 the size and shape of vertical files, as well as the primary  
18 purpose of storing and retrieving legal and letter-sized  
19 documents.

20 Vertical files are also priced along a continuum,  
21 depending upon the number of drawers and features included  
22 in the model. Other types of file cabinets tend to be  
23 higher priced than vertical files. Accordingly, vertical  
24 files are a single domestic like product.

25 Based on a like product definition that mirrors

1 the scope, the domestic industry consists of all U.S.  
2 producers of vertical files. There are two major U.S.  
3 producers of vertical files, the petitioner and the HON  
4 Company, LLC. Additionally, to the best of the petitioner's  
5 knowledge, there are nine other companies that produce a  
6 small number of vertical files in the United States.

7 Several of the non-petitioning companies have  
8 expressed support for this case and have reported indicia of  
9 injury by imports in their responses as well. Petitioner is  
10 not aware of any related party issues that would support the  
11 exclusion of any U.S. producers from the domestic industry.

12 As Ms. Cannon will describe, the preliminary  
13 record presents a clear case of present material injury.  
14 The factors that would support a finding of threat of  
15 material injury are also present. Chinese producers have  
16 massive capacity to produce vertical files, and this  
17 capacity is only increasing. The Chinese industry is also  
18 export-oriented and has demonstrated an ability to rapidly  
19 penetrate the U.S. market.

20 Additionally, subject vertical files are already  
21 entering the U.S. market at prices that are having  
22 significant depressing and suppressing effects on domestic  
23 prices, and they are likely to continue to do so absent  
24 trade relief.

25 Lastly, Chinese producers of vertical files

1 benefit heavily from subsidies that meet the statutory  
2 threat criteria. These subsidies only encourage Chinese  
3 producers to further increase their exports to the United  
4 States. As a result, the preliminary record supports a  
5 determination that vertical files from China present a  
6 threat of material injury to the domestic injury.

7 Finally, a brief word about American Lamb. The  
8 record in this preliminary phase of the investigation is  
9 significantly lacking in importer and foreign producer  
10 responses. This weighs significantly in favor of an  
11 affirmative determination at this early stage of the  
12 investigation.

13 Only domestic producers have provided the agency  
14 with adequate data from which the Commission could make a  
15 determination. As a result, the Commission should rely on  
16 information provided by the domestic industry to make its  
17 preliminary determination with respect to issues such as  
18 negligibility and threat, as that is the best information  
19 available. Thank you.

20 MS. CANNON: For the record, I'm Kathleen Cannon  
21 and I will conclude our presentation today by addressing the  
22 statutory injury factors that provide a reasonable  
23 indication the domestic vertical files' industry has  
24 suffered material injury here. You should each have  
25 received a pink handout that contains confidential charts.

1 I will be referring to those in my testimony today.

2 Let's begin with the statutory negligibility and  
3 volume factors. As indicated in our petition, vertical  
4 files are included in an HTS tariff category that covers all  
5 metal filing cabinets. Mr. Wetterberg identified the three  
6 basic types of file cabinets: verticals, laterals and  
7 pedestals. We estimate that roughly one-third of the  
8 imports in the tariff category are vertical files. That  
9 estimated level and the trends are consistent with Hirsh's  
10 experience in the market.

11 Typically, where a basket category is involved,  
12 the Commission will rely on importer questionnaire data in  
13 lieu of official statistics to calculate volumes. Here,  
14 however, the responses to your questionnaire from the  
15 importers are extremely limited. Accordingly, relying on  
16 the importer questionnaires provides no basis to assess  
17 import volume levels or trends from China. Under the  
18 circumstances, the best data available to the Commission on  
19 import volumes are the official statistics adjusted to  
20 account for the product at issue.

21 Chart 1 in your handout shows our calculation of  
22 negligibility ratios, based on the official statistics.  
23 Those statistics reflect only values, so we also made  
24 adjustments to obtain estimated volumes. As you see in the  
25 most recent twelve months, China accounted for a substantial

1 share of the total volume of imports in this category.  
2 Imports from China well surpassed the 3% threshold for  
3 negligibility.

4 Chart 2 shows that import volumes from China are  
5 also significant on an absolute basis. As our pie graph  
6 indicates, China again accounts for a significant share of  
7 total imports.

8 As shown in Chart 3, the volume of imports from  
9 China has been increasing rapidly over the past two years.  
10 Official statistics show a very significant rate of growth  
11 between 2016 and 2018.

12 As you see in Chart 4, China's share of the U.S.  
13 market has also grown rapidly from 2016 to 2018. From a  
14 significant base in 2016, unfair imports grabbed substantial  
15 additional market share by 2018. A double-digit percentage  
16 rate of growth. The statutory factors that address whether  
17 subject import volumes are significant on an absolute or  
18 relative basis, or are increasing on an absolute or relative  
19 basis, are all met in this case.

20 Notably, these import inroads are occurring  
21 despite declining demand in the U.S. market. As Chart 5  
22 demonstrates, as demand fell, subject imports rose. That  
23 allowed them to capture a larger share of a smaller pie.

24 These market share gains were obtained through  
25 unfairly low pricing by the subject imports, the next

1 statutory factor. As is true of other steel products and  
2 steel fabricated products you have reviewed, the vertical  
3 files market is price-driven. You heard Mr. Bailey testify  
4 as to the interchangeability of the products from the United  
5 States and China, and the result of price-based nature of  
6 sales.

7           You also heard testimony as to the significant  
8 volume of sales that Hirsh lost to a major U.S. customer  
9 just last year because its price was undercut by a major  
10 Chinese supplier of vertical files. Other U.S. producers  
11 similarly reported in questionnaires that they are suffering  
12 injurious effects due to the low prices of vertical file  
13 imports from China.

14           Data you have received in response to importer  
15 questionnaires on price is not only sparse, but none of the  
16 quarterly pricing data provided to date so far have matching  
17 the price descriptors. So those data are unusable. We are  
18 hoping additional pricing data will be submitted by  
19 importers so you can see the underselling the U.S. producers  
20 have experienced.

21           I would like to highlight the comments by one  
22 responding producer, as shown on Chart 6 of our handout,  
23 that corroborate both the increased volume of imports from  
24 China and the lower prices of those imports. Further, we  
25 fully expect that once the quarterly data are submitted by

1 importers, you will see a significant degree of direct  
2 import sales of vertical files. Direct sales by importers  
3 are an important condition of competition that the  
4 Commission has seen increasingly in industries of this type  
5 where the importers are big box stores or similar large  
6 retail purchasers.

7 To our best knowledge, the vast majority of  
8 imports of vertical files are made directly to the retailer  
9 by the foreign producer. As Mr. Wetterberg testified, the  
10 price the purchaser compares to U.S. producer prices are not  
11 prices offered by a middleman distributor, as you see in  
12 some cases, but are the prices that are offered by the  
13 foreign producers directly themselves.

14 A direct import approach by purchasers is a  
15 matter of simple economics. They don't have to pay a markup  
16 by another importer or selling agent if they import  
17 directly. Just as the purchasers compare the foreign  
18 producer prices to the U.S. producer prices in making buying  
19 decisions, so, too, should the Commission analyzing  
20 underselling assuming these quarterly data are ultimately  
21 submitted. The Commission has recognized in a number of  
22 cases the importance of relying on direct import prices in  
23 assessing underselling.

24 Chart 7 shows what has happened to U.S. producer  
25 prices as a result of the underselling by subject imports.

1 Despite increased unit cost, the U.S. producers were not  
2 able to raise prices sufficiently to cover those costs due  
3 to the competing imports from China. Chart 7 compares the  
4 increases in the unit cost of goods sold with the increases  
5 in unit net sales values for the U.S. producers. As you  
6 see, the U.S. prices could not keep pace with rising costs.

7 Faced with this condition of competition, U.S.  
8 producers struggled because of the low prices offered from  
9 the Chinese imports. These facts present a classic case of  
10 prices suppression within the meaning of the statute. While  
11 you don't have quarterly pricing data to demonstrate the  
12 import-related nature of this price suppression, you do have  
13 numerous comments from U.S. producers to confirm this point.

14 Chart 8 sets forth comments of individual U.S.  
15 producers in their questionnaire responses, stating that  
16 they have suffered price suppression due to the low-priced  
17 imports from China.

18 The adverse impact of these surging volumes of  
19 low-priced imports on the domestic industry has been severe.  
20 The domestic industry experienced substantial reductions in  
21 all key trade variables over the 2016 to 2018 period.

22 Chart 9 shows the significant production declines  
23 from 2016 to 2018, based on the U.S. producer  
24 questionnaires.

25 Chart 10 shows similar shipment declines over the

1 period of investigation.

2 Chart 11 is particularly dire, reflecting the  
3 huge drop in capacity utilization that the industry has  
4 suffered in just two years. The industry has substantial  
5 capacity now sitting idle because of lost sales to subject  
6 imports.

7 These effects have also been felt by the workers  
8 as you see in Chart 12. Employment has dropped  
9 significantly over the period of investigation. Companies  
10 report shift cutbacks as well for those workers who are  
11 remaining on the job.

12 The industry's financial variables show even  
13 steeper declines than its trade variables over the past few  
14 years. Net sales value, gross profits, operating profits  
15 and net profits have all fallen dramatically.

16 Chart 13 shows the steep decline in the  
17 industry's operating profits over the period. Worse, those  
18 declines are continuing and worsening this year. Although  
19 the Commission did not request First Quarter data in its  
20 questionnaire, certain producers submitted it anyway to show  
21 the continuing declines they are experiencing.

22 Additional data on the First Quarters of 2018 and  
23 2019 have been provided to us and will be included in our  
24 brief. Given that it is now mid-May, that information is  
25 highly relevant, and we urge the Commission to consider it

1 in its preliminary analysis.

2 As shown on Chart 14, in the First Quarter of  
3 2019, U.S. producers experienced significant further erosion  
4 of their operating profits, as compared to First Quarter,  
5 2018.

6 Chart 15 tracks the operating profit to sales  
7 ratio for the industry beginning in 2016 and ending in First  
8 Quarter of 2019. As you see, the decline is steep and  
9 significant over that period, with profits continuing to  
10 drop this year. These financial declines demonstrate an  
11 industry in crisis. You've heard the industry witnesses  
12 describe some of the negative effects that Hirsh has  
13 suffered due to subject imports. Other U.S. producers have  
14 provided additional evidence of negative effects their  
15 companies have suffered at the hands of unfair imports.

16 Chart 16 provides more specifics on those effects  
17 from the other domestic producer questionnaire responses.  
18 There is no question that there's a causal nexus between the  
19 increasing volumes of low-priced subject imports and the  
20 injury the U.S. industry has suffered.

21 As you see on Chart 17, the increased market  
22 share gains by China were at the U.S. industry's expense.  
23 Chart 17 shows that, as the unfair imports' market share  
24 surge, the domestic industry share fell precipitously. The  
25 market share of nonsubject imports also declined over this

1 period, thus all of the U.S. industry's market share loss  
2 was to the subject imports.

3 Chart 18 depicts the correlation between the  
4 subject import market share penetration and the erosion of  
5 the domestic industry's financial condition. As low-priced  
6 subject imports entered the U.S. market in increasing  
7 volumes, they pressured U.S. prices and caused severe  
8 declines in the industry's profits as well. Other factors  
9 do not explain the severe injury the domestic vertical file  
10 industry has suffered.

11 While demand declined somewhat over the period,  
12 U.S. production dropped by much more as shown in Chart 19.  
13 That is because U.S. producers were also losing sales to  
14 imports from China that were growing despite the falling  
15 demand. Nonsubject imports are also not to blame for the  
16 injury the U.S. industry has experienced. Those imports are  
17 losing market share to China as well as shown previously in  
18 Chart 17.

19 Finally, the injury the U.S. industry has  
20 suffered cannot be blamed on the Section 232 duties, nor has  
21 it been alleviated by the Section 301 tariffs. First, as  
22 Mr. Bailey testified, the industry was experiencing pricing  
23 pressure from imports before the Section 232 tariffs were  
24 imposed in early 2018. Second, as I mentioned earlier, the  
25 Section 232 tariffs on steel input products are a condition

1 of competition the industry has faced, but the industry was  
2 unable to increase its prices to cover those increased costs  
3 due to the unfair Chinese imports.

4 Chart 20 documents the industry's inability to  
5 increase its prices to keep pace with the cost increases,  
6 causing the severe price suppression and huge financial  
7 downturns for the U.S. industry. As to the Section 301  
8 tariffs, vertical files fall in the third tranch of  
9 products that were subject to the 10% tariffs beginning in  
10 September of 2018.

11 This 10% tariff on vertical file imports from  
12 China has had no real impact, as Mr. Bailey testified, due  
13 either to the exchange rate changes or the absorption of  
14 these duties. The tariff increased to 25% only took effect  
15 ten days ago, so it is too soon to tell what effect, if any,  
16 those increased tariffs may have.

17 In sum, the information we have presented  
18 provides compelling evidence of material injury to the  
19 domestic vertical files industry caused by dumped and  
20 subsidized imports from China. Accordingly, we urge the  
21 Commission to issue an affirmative preliminary decision in  
22 this case. Thank you. That concludes our testimony. We  
23 will be happy to answer your questions.

24 MS. CHRIST: Thank you very much for coming down  
25 and sharing your perspectives on the company and the case.

1 I appreciate that it's not as straightforward. I do see  
2 metal filing cabinets around, despite our CIO's best efforts  
3 to make us go paperless. We just hide them farther back,  
4 because I love my paper.

5 (Laughter.)

6 MS. CHRIST: So we will now begin with the staff  
7 questions, and we will start with Jessica Oliva, the  
8 Investigator.

9 MS. OLIVA: Good morning. Jessica Oliva,  
10 investigator on this case. Thank you very much for coming  
11 here today.

12 I've been wondering if there's demand for  
13 unassembled vertical metal file cabinets, or if you're aware  
14 that that is a product that's imported?

15 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
16 Industries. We are aware of some unassembled vertical file  
17 cabinets in the market, but we believe it's a very small  
18 percentage of the market and we have not really had any  
19 significant demand requests for unassembled versions of our  
20 product.

21 MS. OLIVA: Thank you. Being mindful of business  
22 proprietary information, based on our initial APO release  
23 are there any U.S. producers, importers, or foreign  
24 producers that we might have not included?

25 MS. CANNON: Kathy Cannon. That you might not

1 have included in your request for information? Or may not  
2 have received information from?

3 MS. OLIVA: That we have not requested  
4 information from.

5 MS. CANNON: To our knowledge, you've requested  
6 information from the people that we are aware of. You  
7 obviously haven't received it all, but, yes, we've  
8 identified, to our best knowledge, the relevant parties.

9 MS. OLIVA: To the best of your knowledge, are  
10 there any antidumping or countervailing duties ordered in  
11 third-country markets?

12 MS. CANNON: To our knowledge, there are not.

13 MS. OLIVA: Thank you. And my last question:  
14 How would you describe the domestic industry's employment  
15 trends? Has the domestic workforce changed or evolved over  
16 the last couple of years?

17 MS. CANNON: Kathy Cannon. In terms of the macro  
18 data that we have, the employment has done down sort of  
19 commensurate with the decline in production and the  
20 deteriorating sales of the industry that we've experienced.  
21 But that's consistent with your experience? So, yes.

22 MS. OLIVA: And in one of the briefs it was  
23 briefly mentioned that automation was also starting to play  
24 a part in this. Do you know the percentage, or when in that  
25 year that started happening?

1                   MR. BAILEY: We've been working to--Tom Bailey,  
2                   Hirsh Industries. We've been working to automate our  
3                   production process continuously for over 20 years. There  
4                   hasn't been any major changes in the last three years in  
5                   that regard.

6                   MS. OLIVA: Thank you.

7                   MS CHRIST: Thank you. We will now turn to the  
8                   attorney, Robin Turner.

9                   MS. TURNER: Good morning. I'm going to focus on  
10                  some like-product-type questions, even though you've gone  
11                  through the six factors, to try to get a little bit better  
12                  idea of the relationships of the vertical filing cabinet to  
13                  say lateral or other types of storage units.

14                 So my first question is, these are metal vertical  
15                 filing cabinets. I know they make wood ones, as well. Is  
16                 that something--I mean, what is, aside from they are  
17                 probably produced differently, though some of them might, is  
18                 that the key difference between a wood vertical filing  
19                 cabinet and a metal vertical filing cabinet?

20                 Whoever wants to answer.

21                 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
22                 Industries. Yeah, the primary difference is going to be the  
23                 material of construction. There are no other significant  
24                 differences I'm aware of.

25                 MS. TURNER: Do you produce wood vertical cabinet

1 cabinets?

2 MR. WETTERBERG: We do not produce any wood file  
3 cabinets.

4 MS. TURNER: Okay.

5 MS. CANNON: Kathy Cannon. So let me just  
6 supplement that. In terms of the like-product factors and  
7 what you would look at, they wouldn't be made in the same  
8 factories by the same people. They wouldn't use the same  
9 materials, and generally they're sold differently. They  
10 wouldn't be sold through your Walmarts or big box stores  
11 types of things generally, either. They're going to be at a  
12 different price point and a different level. So quite a  
13 different industry.

14 MS. TURNER: Actually, I did buy my wood one for  
15 home at a big box store, but actually that leads to a  
16 question I was going to get to in terms of sales. Are most  
17 of your sales directly to commercial markets? Or are they  
18 to more big box stores? And if that's BPI--and where is it  
19 you're seeing the competition as well? Are you seeing it  
20 with a commercial market? Or are you seeing it with the  
21 big box stores, the Staples, the Office Depots, the  
22 Walmarts?

23 MR. BAILEY: Tom Bailey, Hirsh Industries. We  
24 sell to a variety of channels. Big box retail is very  
25 important to us. And we also sell to wholesalers, or

1 distributors, more commonly known as distributors,  
2 primarily. Direct sales are much less frequent, if that's  
3 what you meant by your question.

4 MS. TURNER: So the competition you're seeing,  
5 the direct sales, because we'll be looking at direct  
6 pricing, the imports are more towards the big box direct  
7 sales?

8 MR. BAILEY: Yes. Yes.

9 MS. TURNER: Okay. And yours are more towards  
10 distributors--

11 MR. BAILEY: No, they're like for like. You'll  
12 find that they're like for like. And as I said in my  
13 testimony, one of the largest big box retailers just merged  
14 with one of the largest distributors, which just kind of  
15 blended them together at the beginning of this year.

16 And in the memo that they sent out to their  
17 suppliers in April, they requested that the pricing be  
18 equilibrated. So if you were a supplier to one side of the  
19 house versus the other, it has to be common at the lower  
20 level of course with a concession.

21 MS. TURNER: I'm sure the economists might follow  
22 up on a few of those questions.

23 Then the question about the assembled versus the  
24 unassembled. So the imports are coming in assembled?

25 MR. WETTERBERG: Brandon Wetterberg, Hirsh

1 Industries. Yes, most of the imports that we see in the  
2 market are coming in fully assembled.

3 MS. TURNER: The lateral versus the vertical  
4 filing cabinets, I understand there's a size difference and  
5 you produce them on different--but if a commercial buyer,  
6 not just somebody for their home, somebody for our offices  
7 here, a distributor that we might get it from, are they  
8 comparing the vertical files to the lateral files when  
9 they're deciding to buy? I mean, you could place two  
10 vertical files probably as equivalent to a lateral file in  
11 terms of the amount of storage.

12 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
13 Industries. Typically we don't see many customers comparing  
14 it like that. They usually come to us asking for a vertical  
15 file or a lateral file, depending on their needs. Very  
16 rarely would I say we would suggest substituting a vertical  
17 file in place of a lateral file, or vice versa.

18 MS. TURNER: Why would that be?

19 MR. WETTERBERG: Well the physical size  
20 characteristics really does play a significant role. I  
21 mean, laterals and verticals just don't fit in the same  
22 space. Not just, you know, putting two vertical files next  
23 to each other isn't the same thing as having a lateral file  
24 there. To give you an example, if you were going to extend  
25 a vertical file that's let's say 26-1/2 inches deep, you

1 need to extend the door 26-1/2 inches deep. So you need not  
2 just the width of the floor space that the product takes up,  
3 but in order to open and close it vertical files require  
4 more use of space.

5 So in an office where space is at a high premium,  
6 they prefer lateral files because an 18-inch deep lateral  
7 file is only going to extend 18 inches. So you can utilize  
8 the space much more efficiently and not take up so much of  
9 your high-priced floor space in your office.

10 MS. TURNER: Are lateral files a newer invention  
11 than vertical?

12 MR. WETTERBERG: That's a good question. I'm  
13 afraid I haven't been around long enough to know the answer,  
14 but I think the rise in laterals has been relatively more  
15 recent than vertical files. We think of vertical files as  
16 going back to, you know, actually being used on ships and  
17 like the early 1900s. So from that regard, yes, lateral  
18 files are a more modern invention. But certainly not new  
19 in any regard.

20 MS. TURNER: Mr. Jansen, did you have a comment?

21 MR. JANSEN: I'm Dave Jansen with Hirsh  
22 Industries. I would just echo what Brandon has said. I've  
23 been in the industry for over 20 years, as well, and there's  
24 really been no difference between the split between vertical  
25 files and lateral files during that period of time. They've

1 both been pretty prevalent in the marketplace for the  
2 different uses.

3 MR. BAILEY: This is Tom Bailey from Hirsh  
4 Industries. Just one other point to make. I don't think  
5 Brandon mentioned it. Lateral files tend to be used for  
6 general-purpose storage, as a practical matter, in the  
7 office. While they can be used for document storage, of  
8 course, many customers are using them for storing first-aid  
9 supplies, snacks, other general-purpose office storage.  
10 Vertical files are pretty much a pure use with archival  
11 document storage.

12 And they're made in very different ways, as well.  
13 They're marketed very differently. So those are some of the  
14 other differences.

15 MS. TURNER: The--just because it might be  
16 something that we're going to have to go through, counsel,  
17 when you're doing your postconference brief, can there be a  
18 comparison of the lateral files and the vertical files using  
19 the six factors? I mean, that would be something that--.

20 MS. CANNON: Yes, we'll be happy to do that.

21 MS. TURNER: --my colleagues might find helpful  
22 when she's providing information to the Commission.

23 MR. BAILEY: This is Tom Bailey, Hirsh  
24 Industries. You could also visit our Dover facility where  
25 we make them both, and you'll see that they're very, very

1 different. They're both made in that facility in completely  
2 different ways.

3 MS. TURNER: I'm sure if, any final, that might  
4 be something that the Commission might do. In a prelim, our  
5 time frame is a little short, unfortunately, but I'm sure  
6 our colleagues will take that under consideration.

7 In terms of the 232 and the effect the 232 has  
8 had on your steel prices, is that because you're using  
9 imported steel for that?

10 MR. BAILEY: Tom Bailey, Hirsh Industries. Well  
11 certainly imposing import duties has resulted in an increase  
12 in steel prices, so it's been across the board almost to the  
13 25 percent level. It's not exactly that, because there are  
14 other costs that go into steel besides steel, per se.  
15 There's things like transformation costs, and you have to  
16 roll it. You have to ship it and store it. But it's very  
17 close to the 25 percent. So steel has gone up across the  
18 board as a result of those tariffs.

19 And as Ms. Cannon said, we did take some pricing  
20 to recover that. But because of suppression, because of  
21 unfairly traded Chinese product, we weren't able to get full  
22 recovery. And of course there are many input costs besides  
23 steel that go into making these cabinets. There's hardware.  
24 There's paint. There's labor. There's packaging. There's  
25 overhead. So if your volumes go down because you've lost

1 business, you're producing less, then the overhead per unit  
2 goes up. So the costs all go up. And we have not been able  
3 to recover those costs because of unfairly traded Chinese  
4 product.

5 MS. TURNER: But I guess the first part of that  
6 question is, I understand that the 301, the effect of the  
7 tariffs put on hasn't helped balance out any increased costs  
8 in your raw materials, be that steel or anything else. But  
9 has the 232, which is what initially put the tariffs on  
10 imported steel, that's risen domestic prices I take it--

11 MR. BAILEY: Yes, it has.

12 MS. TURNER: --but is it domestic steel? Or are  
13 you using--

14 MR. BAILEY: We use a mixture of steel.

15 MS. TURNER: Okay.

16 MR. BAILEY: And your question about the 301, as  
17 I said in my testimony, that is tariffs on say Chinese  
18 filing cabinets was 10 percent, and the RMB has fallen by  
19 about 10 percent in the last year. So we don't know if it's  
20 because of the currency adjustment, or simply because the  
21 Chinese suppliers have been able to absorb that. We don't  
22 know, but it has had absolutely no impact that we can  
23 discern in the marketplace.

24 And the recent position of the 25 percent duties,  
25 which as Ms. Cannon said went into effect 10 days ago, it's

1 too early to know what the impacts may or may not be. And  
2 we don't know how long those tariffs will be in place. But  
3 really importantly, when President Trump announced the 25  
4 percent tariffs last fall, they were originally supposed to  
5 go into effect January 1st. We had absolutely no  
6 correspondence with anyone asking us about that. You know,  
7 you might reasonably ask if prices could rise by 25 percent  
8 if I'm buying foreign product, maybe I should look around  
9 for additional source of supply. It has had absolutely no  
10 impact at all. It doesn't seem to be important to those  
11 importers from what we can tell.

12 MS. TURNER: In terms of the cost aspect--and  
13 this would be more for postconference briefs, I know there's  
14 just been announced on the 232, I believe Canada and Mexico  
15 the tariffs have been lessened or decreased, if that's going  
16 to have any impact that you see on imported steel prices for  
17 this industry?

18 MR. BAILEY: It's too early to tell. It stands  
19 to reason that if you reduce barriers then prices might come  
20 down. But we don't know the full details of the agreements  
21 vis-a-vis Canada and Mexico of what their duty-bound to do  
22 with imports say into their countries. And also President  
23 Trump recently reduced the tariff on Turkish steel. But all  
24 of this is very recent, and we don't know what the impacts  
25 will be.

1 MS. TURNER: Thank you. Whatever you can add to  
2 that in terms of the postconference brief would be helpful.

3 And, let me see, on negligibility I know, and I  
4 expect there's a few other questions about the data set that  
5 my colleagues will be asking you about, so I don't think I  
6 have anything else on that.

7 So with that, I'll turn it over. Thank you very  
8 much.

9 MS. CHRIST: Thank you. We will now turn to  
10 Pamela Davis, the economist.

11 MS. DAVIS: Good morning. Have you noticed the  
12 shift in demand for each size, each product size as files  
13 have become increasingly digitized?

14 MR. WETTERBERG: Good morning, Brandon  
15 Wetterberg, Hirsh Industries. I can't share too specific a  
16 level of detail out here, but we can provide you more in the  
17 postconference brief. But we have seen a general trend to a  
18 slightly shallower depth of products.

19 MS. DAVIS: Thank you.

20 MR. BAILEY: Tom Bailey, Hirsh Industries. Just  
21 to build on Brandon's comments. So besides the unfairly  
22 traded Chinese product, the demand for our products is quite  
23 robust. And maybe it's because these products are so highly  
24 specialized, so good at what they're designed to do, and  
25 they're used in so many different locations from the home to

1 small business, to even industrial and educational  
2 environments, demand has been surprisingly strong.

3 We have seen no impact, or very little impact,  
4 aside from the unfairly traded Chinese product.

5 MS. DAVIS: Thank you. What is the product life  
6 cycle of vertical metal file cabinets?

7 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
8 Industries. Could you clarify that a little bit more in  
9 terms of how long the product is supposed to last?

10 MS. DAVIS: Yes.

11 MR. WETTERBERG: Well there's really a range in  
12 the market. There are light-duty all the way up through  
13 heavy-duty units. So there's not like one specific answer  
14 to that.

15 MS. DAVIS: And in terms of demand, new versus  
16 replacement, could you provide a general idea of what share  
17 of demand is for new customers--new customers versus those  
18 that are just replacing their existing cabinets?

19 MR. WETTERBERG: I don't have any information on  
20 that.

21 MS. DAVIS: Has there been any impact in terms of  
22 alternate office floor space, in terms of open office plans?

23 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
24 Industries. So could you clarify a bit more in your  
25 question? You're looking for the impact on what?

1 MS. DAVIS: Open office floor plans.

2 MR. WETTERBERG: Yeah, open office floor plans  
3 are increasingly popular. They're not a majority yet, and  
4 they're still, you know, smaller than traditional office  
5 furniture, cubicle-type installations or single-office type  
6 installations, but there has been an increase in demand for  
7 open office type. But the types of products that are used  
8 with open office, since their work stations tend to be  
9 pedestal products not vertical files.

10 MS. DAVIS: And are there firm-specific  
11 differences in vertical metal file cabinets amongst U.S.  
12 producers?

13 MR. WETTERBERG: Brandon, Hirsh. There tends to  
14 be a range of vertical files being produced out there. So  
15 there are different specifications for different products.  
16 So I guess I'm not exactly clear, but there are slight  
17 differences in the product we make, but we all make vertical  
18 files and there's a range of specifications out there.

19 MS. DAVIS: Thank you.

20 MS. CHRIST: Thank you. We will now turn to the  
21 accountant, Samuel Varela-Molina.

22 MR. VARELA-MOLINA: Good morning. I only have a  
23 couple questions for you today, so it should be painless.  
24 First I would like to state that due to the nature of my  
25 financial questions, please feel free to answer anything in

1 postconference brief.

2 My first question concerns raw materials. So I  
3 heard many times today that volume has declined in the last  
4 years. However, I can see that raw material has been  
5 consistently increasing. How could you explain that?

6 MR. BAILEY: Tom Bailey, Hirsh Industries. I'm  
7 sorry, Mr. Varela-Molina, could you repeat the first part of  
8 your question? You said something is declining, and I  
9 didn't hear what you said.

10 MR. VARELA-MOLINA: So I heard that volume has  
11 been declining. But then I see raw materials going up.

12 MR. BAILEY: Yeah, volume: That's exactly right,  
13 volumes are declining and raw material costs are going up.  
14 That is correct. So the raw material costs, steel is one of  
15 them, but as I mentioned earlier there are many input costs  
16 to producing a filing cabinet. There's steel. There's  
17 hardware. There's paint. There's packaging. There's  
18 labor. And of course there's overhead.

19 And maybe because the economy has been pretty  
20 strong in recent years, there are some increases in those  
21 costs. The volumes are declining because we have lost  
22 considerable share to unfairly traded Chinese products. And  
23 furthermore, we have been unable to recoup all of the  
24 impacts of those higher raw material costs. So we have made  
25 efforts to pass along those costs in terms of higher

1 pricing, but we have been unable to do so as we've testified  
2 earlier, and as Ms. Cannon said in her remarks.

3 MR. VARELA-MOLINA: Thank you. And my other  
4 question to you concerns capital expenditures. We could see  
5 from your questionnaire that they were consistent for the  
6 first two years, and then for the last year it was like a  
7 sharp increase.

8 MR. BAILEY: Yeah, there is a comment in our  
9 questionnaire, and we'd prefer to address that in a  
10 postconference brief with you on what happened.

11 MR. VARELA-MOLINA: Those are all my questions  
12 for today. Thank you.

13

14 MS. CHRIST: Thank you. We will now turn to the  
15 industry analyst, Karl Tsuji.

16 MR. TSUJI: Good morning, everyone. I have  
17 several questions about the subject product, as well as the  
18 excluded products.

19 First of all, when it comes to the vertical metal  
20 filing cabinets versus the lateral and the pedestal filing  
21 cabinets, are there different raw materials that go into the  
22 subject product versus the excluded products?

23 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
24 Industries. The raw materials generally tend to be the same  
25 when you're talking about metal filing cabinets, cold-rolled

1 steel and sometimes galvanized steel are the primary  
2 components of raw materials.

3 MR. TSUJI: Okay. And then you can put the  
4 details into your posthearing brief, but can you provide a  
5 synopsis about how the manufacturing processes differ  
6 between the domestic like product, the vertical filing  
7 cabinets, vertical metal filing cabinets, versus the  
8 excluded lateral and pedestal filing cabinets.

9 MR. BAILEY: Without divulging anything  
10 proprietary, one of the important points is that vertical  
11 files are designed primarily for document storage. So they  
12 come in two widths. They have a handful of depths, but just  
13 two widths, and they have a handful of colors.

14 So because these are highly standardized  
15 products, they lend themselves towards significant amounts  
16 of automation where multiple units can be made per minute.  
17 Whereas, that is not true of the others.

18 And beyond that, I prefer to divulge that in a  
19 postconference brief.

20 MR. TSUJI: That would be fine.

21 MR. BAILEY: Thank you.

22 MR. WETTERBERG: Brandon with Hirsh. I'd just  
23 like to add that we do not make pedestals in our U.S.  
24 facility. So that's another differentiation between peds,  
25 laterals and verticals. They're not even made in the same

1 factory.

2 MR. TSUJI: Okay. Now let's switch over to the  
3 subject Chinese firms. Are you aware whether or not these  
4 firms that provide--that export the subject vertical metal  
5 filing cabinets to the U.S. market also export the  
6 nonsubject lateral and pedestal filing cabinets?

7 MR. BAILEY: Yes, they do. Tom Bailey, Hirsh  
8 Industries.

9 MR. TSUJI: Okay. Now raw materials,  
10 particularly the steel for vertical metal filing cabinets,  
11 are you aware of vertical metal filing cabinets made from  
12 other materials other than the cold-rolled carbon steel or  
13 the galvanized steel?

14 For example, have you seen vertical metal filing  
15 cabinets made of say stainless steel, alloy steels, or  
16 aluminum in the U.S. market?

17 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
18 Industries. No, we have not seen any kind of vertical  
19 files in the U.S. market made from, you know, metal alloys  
20 like stainless steel or aluminum, anything of that nature.

21 MR. TSUJI: How about aluminum?

22 MR. WETTERBERG: No, we have not seen any  
23 products made with aluminum, either.

24 MR. TSUJI: Okay.

25 MR. WETTERBERG: I would clarify that. Only as

1 components. Sometimes handles are made of aluminum, but  
2 it's not a substantial raw material in construction of the  
3 cabinet.

4 MR. TSUJI: Okay. Good. You're thinking one  
5 step ahead of me. That was going to be my next question  
6 about the accessories, because I presume the handles, the  
7 lock mechanism, sometimes, or the frames for holding the  
8 folders, et cetera, those could be either of aluminum or  
9 steel.

10 MR. WETTERBERG: Yeah--Brandon, Hirsh--yeah,  
11 sometimes the accessories like the handles or the card  
12 holders, or thumb buttons can be made out aluminum or  
13 plastic, or cast--sometimes the locks are cast products made  
14 of zinc. But they constitute a pretty small portion of the  
15 overall material usage in a vertical file.

16 MR. TSUJI: Okay. And from what I've heard so  
17 far in the testimony, the reason I'm asking these questions,  
18 I want it on the record, specifically on the record so we  
19 can put it in our staff report. Are there any notable  
20 differences in the manufacturing process, or manufacturing  
21 technology, used to produce these vertical metal filing  
22 cabinets by the U.S. producers versus the Chinese producers?  
23 And then, I would also add, nonsubject producers?

24 MR. WETTERBERG: Brandon, Hirsh. Hirsh believes  
25 that we are the most efficient, most advanced producer of

1 metal vertical file cabinets in the world. We believe that  
2 our Chinese competitors are using less efficient, more  
3 manual labor-intensive means of production.

4 MR. TSUJI: Okay. And then to follow up, what  
5 are the leading nonsubject countries that provide vertical  
6 metal filing cabinets to the U.S. market? You can put that  
7 in your posthearing brief, if--

8 MR. BAILEY: Tom Bailey, Hirsh Industries. The  
9 largest importers of vertical filing cabinets are China,  
10 Mexico, and Canada. And there's a tail-end of many small  
11 countries, but they are very, very, very small.

12 MR. TSUJI: Okay, great. And then, this is a  
13 question more for Ms. Cannon. You had already mentioned  
14 that the petitioners were not aware of any current  
15 antidumping or countervailing duty orders in third-country  
16 markets on China's vertical metal filing cabinets.

17 Just wanted to go one step beyond. Are you aware  
18 of any ongoing antidumping or countervailing duty  
19 investigations in these third-country markets? Or any  
20 safeguard orders or investigations?

21 MS. CANNON: Not to our knowledge, no.

22 MR. TSUJI: Okay, thank you.

23 MR. BAILEY: Tom Bailey, Hirsh Industries. If I  
24 could just add, that might be just a matter of timing. We  
25 don't know of any. But we're only talking to you now and it

1       could be that there would be subsequent action in Canada or  
2       other places, but that's just conjecture. We don't know.

3               MR. TSUJI: Okay, thank you. I think that's the  
4       last of my questions. Ms. Christ, I have no further  
5       questions.

6               MS. CHRIST: Thank you. We'll now turn to Craig  
7       Thomsen, the Supervisory Investigator.

8               MR. THOMSEN: Good morning, and thank you all  
9       again for coming in and testifying for us. We always  
10      appreciate the opportunity to talk with you and get some  
11      direct answers here and learn more about your industries. I  
12      have a few areas that I just wanted to touch on briefly,  
13      hopefully. And some of these are really just follow-ups to  
14      other questions to which and other ones are just  
15      clarifications.

16              The first one I wanted to look at is a market  
17      structure question. You had noted that you don't really  
18      sell online. Do you have any direct sales that you do  
19      online? Or is it all through third-party areas?

20              MR. JENSEN: Dave Jensen with Hirsh Industries.  
21      We do sell some online to end users.

22              MR. THOMSEN: Okay. And how much of your sales  
23      does that account for, approximately?

24              MR. JENSEN: I'm gonna say 15% probably.

25              MR. THOMSEN: Okay.

1           MR. JENSEN: In that neighborhood.

2           MR. THOMSEN: And so those are direct sales. And  
3 then are there other indirect sales via the internet? Like  
4 through, like, Amazon or something like that.

5           MR. JENSEN: I mean our distributors sell to  
6 dealers who have an online presence, too.

7           MR. THOMSEN: Okay. And I guess, in general, you  
8 know, we've seen the large growth in online sales throughout  
9 many industries. How have the increase in online sales  
10 affected Hirsh Industries, or even the market in general?

11          MR. JENSEN: I mean it's been a bit of a shift,  
12 so some of the demand has moved to the online market.  
13 Again, as we were discussing, as we were talking yesterday,  
14 the online market is -- they price to the markets, so the  
15 prices that an online retailer sells, they're trying to line  
16 up and make sure that they're competitive against whoever  
17 else is selling vertical file cabinets. So they go out and  
18 competitively shop and so they're looking at companies that  
19 are sourcing file cabinets from Chinese suppliers as well.  
20 And so they come back to us and make sure that they can sell  
21 our products profitably based on --

22          MR. THOMSEN: So they're looking at other  
23 distributors of Chinese products --

24          MR. JENSEN: They're looking at the market as a  
25 whole.

1 MR. THOMSEN: Yeah. Okay.

2 MR. WETTERBERG: Excuse me, Mr. Thomsen --

3 MR. THOMSEN: Yeah, Mr. Wetterberg?

4 MR. WETTERBERG: Could you please -- this is  
5 Brandon at Hirsh Industries. Could you please clarify  
6 exactly what you mean by direct sale online?

7 MR. THOMSEN: If you have a website, say  
8 HirshIndustries.com, or some other online outlet that you're  
9 selling directly through, but not through another  
10 distributor.

11 MR. WETTERBERG: Okay.

12 MR. JENSEN: I guess I misunderstood your  
13 question then.

14 MR. THOMSEN: No problem, Mr. Jensen.

15 MR. JENSEN: The direct sales I'm talking about  
16 would be through an Amazon or through a Wayfair.

17 MR. THOMSEN: Okay.

18 MR. JENSEN: Hirsh does not sell direct to end  
19 users.

20 MR. THOMSEN: Okay.

21 MR. BAILEY: Tom Bailey, Hirsh Industries. Mr.  
22 Thomsen, maybe I can clarify one thing for you that is  
23 different about how things are done today than, say, twenty  
24 years ago, before online sales became prevalent. And that  
25 is, it used to be that you go to a store and you find a

1 product and you buy it.

2 And that still happens, but increasingly, you can  
3 just shop from your computer. And you may go to Amazon or  
4 Cymax or any of the other--Wayfair--any of these other large  
5 online resellers, and you can buy a filing cabinet from  
6 them. They will not carry the inventory. The order will be  
7 routed to the supplier, say, Hirsh Industries, and we will  
8 direct fulfill it from our warehouse.

9 And so, they still get the sale, they still get  
10 margin, and they are still responsible for keeping that  
11 customer happy if there's a customer service issue, say,  
12 they will call them. But they're no longer carrying the  
13 inventory--in many cases--for those online sales. And  
14 that's a different structure than it used to be.

15 And it has increased the complexity of our  
16 operations. Because it's one thing to fill a truckload once  
17 a week than it is to get orders that have to be put out for  
18 Federal Express or UPS to pick up by 11:00 a.m. It's a much  
19 harder thing to do. And in addition, as Mr. Jensen has  
20 said, once upon a time if you're a retailer and you wanna  
21 know what your competition is doing, you probably had to,  
22 you know, do the "sneaker net" and walk around to their  
23 stores to find out what the prices were, or maybe you'd see  
24 some advertisements.

25 Now, you have the luxury of doing it from your

1 computer. So you can readily see what everyone's pricing.  
2 And actually, this is automated where it'll have bops.  
3 Amazon can go out and find out, and that's one of the ways  
4 that price is propagated the marketplace so rapidly, and  
5 that is why unfairly traded Chinese products are so  
6 disruptive. Because once someone sees a price, it goes all  
7 the way across the board pretty quickly.

8 MR. THOMSEN: Sure. And so, with your direct  
9 fulfillment, has that caused you to increase the amount of  
10 inventories that you hold in your warehouses?

11 MR. BAILEY: It has had some effect. Without  
12 getting into too much of what we do, a good portion of  
13 Hirsh's business is private-label. So we have different  
14 branded products that are slightly different. We work every  
15 day to try to, you know, as we say, maximize the value  
16 variety by minimizing the cost of complexity. So  
17 interchangeable inventory or inventory that can be  
18 differentiated at the last minute through relatively modest  
19 changes, is important.

20 MR. THOMSEN: Okay, thank you. That's very  
21 helpful. I'm gonna switch to demand. I heard two different  
22 things and I just wanna get a clarification on here. I  
23 heard from Ms. Cannon multiple times that demand has been  
24 declining for vertical files. I heard from Mr. Wetterberg  
25 that, he said that demand has been steady. Is it steady for

1 your other products? Is it steady for vertical files? I'm  
2 trying to figure out where we actually are in terms of  
3 demand.

4 MR. BAILEY: Tom Bailey, Hirsh Industries. I  
5 think the reconciliation, too, is Ms. Cannon has data that  
6 Hirsh Industries is not privy to.

7 MR. THOMSEN: Sure.

8 MR. BAILEY: So, from our perspective, demand has  
9 been pretty strong except for the unfairly traded Chinese  
10 product. We are extremely efficient. We told you, we  
11 testify that we think we're the most efficient producer in  
12 the United States, in the entire world, in fact -- high  
13 degrees of automation -- and so we, just because we've been  
14 impacted by unfairly traded Chinese product has not  
15 prevented us from trying to go out and grow our business.

16 And we don't know if that's stealing share from  
17 other manufacturers. We have no way of knowing. Certainly,  
18 we all are aware colloquially of, you know, a paperless  
19 society and some of those trends. But the demand for these  
20 cabinets is quite strong. It's a large market. They're so  
21 specialized at what they do. So I think that reconciles it.

22 MS. CANNON: Kathy Cannon. So my comments were  
23 based on the macro data that we have on the record, at least  
24 to the best that we can aggregate it from what we've  
25 received so far.

1                   MR. THOMSEN: Okay, great. And when you're --  
2                   this is a question, it can be for anyone on the panel, maybe  
3                   the economists are the best people to attach this to, but  
4                   are there indices to which demand for the vertical files  
5                   might be tied? Like, office space or housing starts,  
6                   business formation? Or what type of indices do you look at  
7                   when you're trying to project forward your demand for  
8                   vertical files?

9                   MR. BAILEY: Tom Bailey, Hirsh Industries.  
10                  Certainly we're aware of some correlation between, say,  
11                  office vacancy rates and demand. So when vacancies go up,  
12                  demand goes down. It's somewhat tied to the business cycle.  
13                  But in terms of long-term planning, really what matters the  
14                  most for us for demand is whether or not a large customer's  
15                  gonna do a promotion, which might result in a meaningful  
16                  lift.

17                  And it's usually additive, it's not, you know,  
18                  just for buying in one period when there's a promotion, then  
19                  it falls off. It does generate underlying increases in  
20                  demand. But it's more promotional activity than macro  
21                  trends which we're unable to discern exactly how those  
22                  impact our business.

23                  MR. THOMSEN: Okay. And are those seasonal? Or  
24                  is there any seasonal nature to this business?

25                  MR. BAILEY: I think perhaps Ms. Cannon could

1 address the industry data which we are not privy to. Our  
2 business has some seasonality to it, simply because of our  
3 specific customer mix that we could detail in a  
4 post-conference brief.

5 MR. THOMSEN: Sure, that would be great.

6 MR. BAILEY: I think it's specific to us, but I  
7 don't know what the other companies do, what they  
8 experience.

9 MR. THOMSEN: Ms. Cannon?

10 MS. CANNON: Yes. Given that what I know about  
11 the other companies is based on U.S. producer  
12 questionnaires, we would need to address it in a  
13 post-conference brief.

14 MR. THOMSEN: That's great, thank you. Okay, I'm  
15 gonna switch over to supply for just a couple of questions.  
16 Are certain types of vertical files only available from  
17 certain sources? You had noted that you had different  
18 private-label brands that may have, you know, small changes?  
19 I don't know if that's a lock on the left side versus the  
20 center versus the right side or, you know, it's something of  
21 that nature. But, you know, is there a focus for different  
22 sources on different types? Do mostly two drawers come  
23 from China and four drawers come from Mexico? Or is there  
24 any kind of differentiation among products in the market?  
25 It can be either for yourself, or for the market, I mean

1       you're the market leader, so obviously, you know, what  
2       happens with Hirsh is very important.

3               MS. CANNON: For some of the overall market  
4       indicators, again, a lot of that's gonna be based on  
5       questionnaires, and we can address that further in the  
6       brief. And I think Mr. Bailey could address it for Hirsh.

7               MR. BAILEY: I would like to defer some of it to  
8       post-conference brief, because we do have a manufacturing  
9       strategy and we have more than one manufacturing location.

10              MR. THOMSEN: Okay.

11              MR. BAILEY: So we also manufacture some product  
12       in Mexico.

13              MR. THOMSEN: Okay. That's actually where my  
14       next question was going, so thank you for bringing that up.  
15       And, were those pedestal files that Mr. Wetterberg was  
16       talking about, or is that in a different facility?

17              MR. BAILEY: Yes, those are made in Mexico by  
18       Hirsh Industries, pedestal files.

19              MR. THOMSEN: And are vertical files also made in  
20       Mexico by Hirsh?

21              MR. BAILEY: Yes.

22              MR. THOMSEN: Okay.

23              MR. BAILEY: As well as in the United States, of  
24       course.

25              MR. THOMSEN: Of course. And how about lateral

1 files?

2 MR. BAILEY: Those are made in the United States  
3 only.

4 MR. THOMSEN: Okay.

5 MR. BAILEY: By Hirsh.

6 MR. THOMSEN: Okay, great. That's very helpful.  
7 And this probably gets into a post-conference brief, but  
8 I'll ask it here. What influences your decisions as to  
9 whether to produce or, obviously for lateral files, your  
10 decision is--and for pedestal files, it's only for where  
11 it's located obviously, but for vertical files, since you  
12 have both, what I'm looking for, you know, some sort of  
13 direction as to your decisions.

14 MR. BAILEY: I'd like to address that in the  
15 post-conference brief. But I will add for the record that  
16 our facility in Mexico we've had for twenty years.

17 MR. THOMSEN: Okay.

18 MR. BAILEY: It's not a recent development. And  
19 it was added for capacity, to expand capacity.

20 MR. THOMSEN: Okay. Great, thank you. I guess  
21 the last things that I just wanna touch on are just some  
22 data issues. One of them is with respect to the official  
23 trade stats that was used in your presentation. You noted  
24 that they were noted as adjusted, and you had also noted  
25 that it was about a third of their -- is that how you

1 adjusted it? You just took official stats and divided by  
2 three? Or was it more complicated?

3 MS. CANNON: We looked at the official stats,  
4 which are value-based, so that made it even more  
5 challenging. So we estimated that they were a third, but  
6 then we also had to do an adjustment to recalculate those  
7 for volume and we -- I'm not sure how -- I'm looking at my  
8 colleague from GES -- maybe Mr. Hudgens can explain more  
9 specifically.

10 MR. HUDGENS: I think our methodology's detailed  
11 in Exhibit 7 of the petition. But in addition to multiplying  
12 the value by a third, we also computed quantity based on  
13 AUVs and we used two different -- a separate AUV for China  
14 versus AUV for other countries, and those AUVs are detailed  
15 in Exhibit 7.

16 MR. THOMSEN: Okay, great. And this is kind of  
17 getting to another point of two of my prior questions. Are  
18 there different AUVs for pedestal files versus lateral  
19 files? And would that be showing up in the import data?

20 MS. CANNON: Kathy Cannon. To the best of our  
21 knowledge, all of these are in the one metal filing cabinet  
22 category. Vertical files, lateral files, pedestal files.  
23 It's all within the same tariff category.

24 MR. THOMSEN: And in the market, are there  
25 different prices for, let's say, a vertical file of the same

1 size as the pedestal file, a two-drawer file, are they about  
2 the same price? Or is there some sort of --

3 MR. WETTERBERG: Brandon Wetterberg, Hirsh  
4 Industries. We tend to see very different pricing.  
5 Vertical files tend to be the least expensive of the three  
6 categories. Pedestals and then lateral files would be the  
7 most expensive. And there's pretty significant difference  
8 in prices in the market.

9 MR. THOMSEN: Okay. So if I were to look in the  
10 market and, you can just give me general ranges here, I'm  
11 not looking for anything specific. If I'm looking for a  
12 two-drawer vertical file versus a two-drawer pedestal file  
13 versus a two-drawer lateral file, what's the range that I'm  
14 looking at, at a distributor level?

15 I'm sure, because retail markets vary so widely,  
16 it's really hard to get it at a retail level, but, you know,  
17 if this goes too much into your data, that's fine, you can  
18 put it in the post-conference brief.

19 MR. WETTERBERG: We'll provide the detail in the  
20 post-conference.

21 MR. THOMSEN: Okay, great. That would be  
22 wonderful.

23 MR. MOREY: This is Josh Morey with Kelley Drye.  
24 Just wanted to point out, pedestal files typically are at  
25 one or fewer file-sized drawers.

1 MR. THOMSEN: Okay.

2 MR. MOREY: Pedestal drawers are typically not a  
3 file drawer.

4 MR. THOMSEN: I guess a pedestal, that is of the  
5 similar height to a two-drawer vertical file. Thank you.  
6 In your presentation, you had noted, Ms. Cannon, that you  
7 had some First Quarter data, right? Was that only for  
8 Hirsh?

9 MS. CANNON: We have that for other companies as  
10 well, but I --

11 MR. THOMSEN: Okay.

12 MS. CANNON: -- that's why I said I'll put it in  
13 post-hearing because that's all confidential.

14 MR. THOMSEN: Perfect. I just wanted to dot that  
15 I. And the last one is also another post-conference brief  
16 request. You had noted, Mr. Bailey, you had received  
17 communication from large retailers demonstrating that price  
18 was the motivating factor for switching sources. If you  
19 could put that on the record in your post-conference brief,  
20 that would be wonderful. In particular, I'm interested in  
21 the documented related to that large lost sale that you had  
22 referenced multiple times in your testimony.

23 MR. BAILEY: Tom Bailey, Hirsh. Okay.

24 MR. THOMSEN: Great, thank you. And that's all  
25 the questions that I have.

1 MS. CHRIST: Thank you. I'll see if we have any  
2 follow-up questions?

3 MS. DAVIS: Good morning. Again, Pamela Davis.  
4 I'm actually interested in your post-conference brief if you  
5 could provide information on capacity utilization between  
6 the U.S. production facility and the Mexico production  
7 facility. Thank you.

8 MR. BAILEY: Tom Bailey, Hirsh. Noted.

9 MR. TSUJI: This is Karl Tsuji, the industry  
10 analyst. Real quick, where is the location of your facility  
11 in Mexico? The city and the state?

12 MR. BAILEY: It is in Mexicali, Baja. State of  
13 Baja.

14 MR. TSUJI: Baja California Norte?

15 MR. BAILEY: Mm-hmm.

16 MR. TSUJI: Okay, thank you.

17 MS. TURNER: Robin Turner, Office of the General  
18 Counsel. Just one follow-up. Exports, is that a  
19 substantial share of your product? Do you export the  
20 vertical metal filing cabinets? And if so, what are your  
21 main export markets?

22 MR. BAILEY: We have exports to Canada primarily,  
23 of vertical files from the United States. Tom Bailey,  
24 Hirsh.

25 MS. CHRIST: Thank you. Any other -- Great.

1 Thank you very much. I was just going through and going up,  
2 it looks like everybody asked most of the follow-up  
3 questions that I had noted.

4 Just as a clarification, I heard two types of  
5 behavior on the part of the imports from China. I  
6 understood that for the imports of the cold-rolled steel,  
7 there were tariff increases, although potentially not the  
8 full impact because of the makes of domestic versus imported  
9 sourcing on those. But that that was completely passed  
10 through and has affected your prices, or your input prices.  
11 On the other side of the production process, which is the  
12 vertical metal cabinets, I heard that the tariffs were  
13 absorbed by the Chinese producers and the potential increase  
14 was -- the potential effect of those imports were mitigated  
15 by exchange rate changes.

16 Could you explain why it seems to be that on one  
17 part of the production process, everything is coming through  
18 and I didn't hear about any mitigation from the exchange  
19 rate, but on the other side there's complete absorption by  
20 the Chinese producers and mitigation by manipulation of the  
21 exchange rate.

22 MS. CANNON: Yes. Kathy Cannon. So on the  
23 Section 232 tariffs, remember that those were applied  
24 globally. Almost everybody in the world is subject to those  
25 tariffs. That has made a major impact because it's not just

1 China. It's everybody in the world, so you're not talking  
2 about mitigated exchange rates worldwide. What China may or  
3 may not be doing. In fact, China as you know is subject to  
4 lots of antidumping and countervailing duties already on  
5 many of those products including cold-rolled steel. So  
6 you're talking about a worldwide effect that happened on  
7 the 232 tariffs that caused the price increases that have  
8 occurred in the market.

9           Conversely, the Section 201 tariffs that applied  
10 to the vertical files were only China and they were only  
11 10%. And that, you know, that was quite different. So  
12 you're talking now only China and only 10%. And that was  
13 between the exchange rate shift and their ability to absorb  
14 them was what made the difference.

15           MS. CHRIST: Thank you. Could I just get a  
16 clarification, was that merger between the retailer and the  
17 distributor, did you say that was 2018?

18           MR. BAILEY: 2019.

19           MS. CHRIST: 2019?

20           MR. BAILEY: Yeah, it just happened.

21           MS. CHRIST: It just happened. And subsequent to  
22 that merger was when they sent out this announcement saying  
23 you kind of had to, that the new prices were gonna be the  
24 lowest of the two prices that they were originally receiving  
25 from producers and retroactive, is that what I heard of the

1 testimony?

2 MR. BAILEY: Yes, and an additional concession in  
3 pricing was requested. And that memo was sent out in April  
4 of 2019.

5 MS. CHRIST: Okay. So I'm curious about how much  
6 of their request for the pricing concessions were a function  
7 of the increased market power that the purchaser now had  
8 with this consolidation? And you've mentioned there's been  
9 consolidation over the years. Why did they not ask for  
10 these pricing concessions in '16 or '17 or '18?

11 MR. BAILEY: This particular one of the two  
12 merging parties buys vertical filing cabinets from China, in  
13 addition to market power of course. Tom Bailey, Hirsh.

14 MS. CHRIST: Okay. So I wanted to follow up on  
15 Craig Thomsen's question about the shifting logistics with  
16 the direct sales. So, for example, if somebody purchases a  
17 vertical metal cabinet on Amazon and it's ordered through  
18 them, but then it's directly fulfilled through you,  
19 potentially increasing the inventory-carrying costs. If  
20 somebody purchases one and it's a Chinese-produced product,  
21 where is that fulfilled from?

22 MR. JENSEN: Dave Jensen, Hirsh Industries.  
23 Amazon would likely warehouse that product themselves.

24 MS. CHRIST: So, for products that are produced  
25 in the United States, just as a hypothetical, going through

1 a direct sale from Amazon, the U.S. producer would  
2 predominantly carry the inventory-carrying costs for that,  
3 whereas Amazon would likely, for imported product, carry the  
4 inventory-carrying costs for that?

5 MR. JENSEN: Correct. Yes. U.S. producers --  
6 Amazon will stock some product, warehouse some product from  
7 U.S. producers, but the vast majority of it is  
8 direct-fulfilled by the manufacturer.

9 MS. CHRIST: This is for Ms. Cannon. Did you  
10 mention in your opening statement that there is a long-term  
11 structural steady decline in demand or apparent consumption?  
12 I mean, long-term, given sort of, say, not just like the  
13 last three years, but sort of a more long-term, given the  
14 maturity of the market, the maturity of the type of demand  
15 and end uses and things like that?

16 MS. CANNON: Yes, our understanding is, that over  
17 a long period of time for many years, you've seen sort of a  
18 slow decline in the product. But as, you know, Mr. Bailey  
19 testified, over the last three years, it hasn't been  
20 anything dramatic. In fact, for his company, it's been the  
21 opposite. They've actually seen some increased demand for  
22 their product.

23 And my testimony focused over the last three  
24 years on the data that we are estimating as best we can,  
25 which is showing some decline over this period. But the

1 perception of people in the marketplace is not that there's  
2 been any significant change in the period that you're  
3 looking at.

4 MS. CHRIST: To the extent that there's some  
5 additional information on the role of electronic files in  
6 demand and the long-term structural demand, if you could  
7 provide that. And that's probably not something you may  
8 have off the top of your head, but if you happen to have  
9 that information in forecasting your own business process.

10 MR. BAILEY: Tom Bailey, Hirsh. We don't have  
11 anything specific about that. But, of course, we're aware  
12 of cloud computing and mobile computing and how you can get  
13 a boarding pass for your flight on your phone and things  
14 like that, that have reduced the demand for paper. But the  
15 demise of vertical filing, I think, if that's what you're  
16 getting at, we're not seeing anything like that.

17 And in my experience in other consumer goods  
18 industries, it's remarkable how long tails can be in a  
19 marketplace. Because people have done something one way,  
20 they continue to like to do it. And it's very  
21 cost-effective, these products, they deliver a lot of value  
22 for what you pay for 'em.

23 MS. CHRIST: Thank you. I'll just -- One more?

24 MR. THOMSEN: Sorry, I had one more question.  
25 This is Craig Thomsen from the Office of Investigations.

1 And it's not something that we had touched on before, or at  
2 least, if Mr. Tsuji has asked about this, I missed it. He  
3 had asked about the different types of steel that was being  
4 used, whether it's stainless or not. But I didn't know  
5 about the gauge of steel? I know that I have seen some  
6 older vertical files that are really heavy gauge steel. And  
7 the ones that I see nowadays, not so much.

8 And so I was wondering if I could just get a  
9 little bit of information regarding, number one, the type  
10 and gauge of steel that's used by Hirsh or in the market  
11 over time. You can look, you know, long-term, medium-term,  
12 short-term, if it's changed at all during the period of  
13 investigation. And also a comparison of the steel used by  
14 Hirsh versus the steel that's used by subject imports, as  
15 you know about the marketplace competition between there.

16 MR. WETTERBERG: Brandon at Hirsh Industries.  
17 So, generally speaking, if you're talking about the  
18 long-term, you know, comparing a file cabinet made in, like,  
19 the 50s, compared to today, yeah, certainly, there's been a  
20 reduction in the thickness of steel that's being used. We  
21 believe that we have engineered a very equivalent product in  
22 terms of strength and durability, you know, through  
23 engineering and design, much the same way that cars are  
24 lighter now than they were in the 50s, but we would argue  
25 that, you know, they're probably superior than the cars that

1       were made in the 50s as well.

2                       So over the years, we have used engineering to  
3       change the gauge. Sometimes that means lowering the gauge  
4       and increasing engineering design. Sometimes, over the  
5       years, we've actually had to increase our gauge as we face  
6       new demands in our products, like, say, shipping through  
7       FedEx, which is not so easy. So we've done both, you know,  
8       it really comes down to the engineering need and how we can  
9       best design the product. And gauge is one of the factors  
10      that we consider, but you know, you can't say  
11      single-handedly that if it's got more gauge, it's a better  
12      product.

13                      So it really comes down to what engineering  
14      problem we're trying to solve and we look at, you know,  
15      engineering and gauge to solve those, and then, regarding  
16      the Chinese imports, the ones that we've evaluated actually  
17      tend to use more steel. Even though they've largely knocked  
18      off our designs, they're actually using thicker-gauged steel  
19      in a lot of cases. So their products actually have more raw  
20      materials in them, but somehow they're, you know, priced  
21      less than ours, so that's something we've been struggling  
22      with.

23                      MR. BAILEY: Tom Bailey, Hirsh. Those Chinese  
24      products also have more packaging as well. So they're  
25      underselling us dramatically, and they've got more material

1 in them.

2 And one other comment to build on, our customers  
3 have demanding test requirements. So we may want to make a  
4 change, but if it doesn't pass the test requirements, it's  
5 not gonna get qualified, and these are pretty rigorous, with  
6 a large big box store, it might be three to six months to  
7 get our products through their testing and then BIFMA, the  
8 industry body that oversees our product category, they've  
9 got their own set of tests which we have to meet.

10 MR. THOMSEN: Okay, thank you very much for those  
11 questions. And I have no further questions.

12 MS. CHRIST: Thank you very much. I think we've  
13 finished our questions. I want to echo Craig's appreciation  
14 that you are coming down here and helping us to, one, get  
15 some very critical information on the record, and to answer  
16 questions because often, you know, you walk by various  
17 products and you have absolutely no idea how complicated it  
18 is to do that, because, I guess, part of your job is to make  
19 these things look simple to us and simple for us, that we  
20 forget the complexity behind them, and the automation and  
21 all the evolution and the investment.

22 So I appreciate you guys all coming down and  
23 explaining to us that it's not as simple as, when I walk by  
24 it, and I certainly won't look at it the same way as I walk  
25 through the hallways and relish all the paper that I still

1 have that's mine, all mine. So with that, thank you very,  
2 very much, and we will now turn to Mr. Secretary to closing  
3 remarks.

4 MR. BURCH: Closing remarks on behalf of those in  
5 support of imposition will be given by Kathleen Cannon of  
6 Kelley Drye & Warren. Ms. Cannon, you have ten minutes.

7 CLOSING REMARKS BY KATHLEEN W. CANNON

8 MS. CANNON: Mercifully for you I will not be  
9 taking ten minutes. There's nothing to rebut today. I very  
10 much appreciate your attention and your questions. There's  
11 nothing to rebut, some I'm not gonna spend a lot of time. I  
12 do wanna say that, to the extent that we can be helpful in  
13 trying to help you collect data, we obviously are interested  
14 in making sure the record is as comprehensive as it can be.  
15 You can tell that we have worked as we could with domestic  
16 producers to try to get information, which is pretty  
17 significant on the record there. But otherwise, we  
18 appreciate your attention today. And we will attempt to  
19 answer all the questions we haven't been able to answer  
20 publicly in our post-conference briefs, so thank you.

21 MS. CHRIST: Thank you. Appreciate all your  
22 efforts in helping us to make sure that we have a good  
23 record for the Commissioners. So now, on behalf of the  
24 Commission and the staff, I would like to thank all the  
25 witnesses who came here today, as well as counsel, for

1 helping us to gain a better understanding of the product and  
2 the conditions of competition in the vertical metal file  
3 cabinets industry.

4 Before concluding, please let me mention a few  
5 dates to keep in mind. The deadline for submission of  
6 corrections to this transcript and for submission of  
7 post-conference briefs is Friday, May 24th. If briefs  
8 contain business proprietary information, a public version  
9 is due Tuesday, May 27th.

10 The Commission has tentatively scheduled its vote  
11 on these investigations for Thursday, June 13th, and it will  
12 report its determination to the Secretary of the Department  
13 of Commerce on Friday, June 14th. Commissioners' opinions  
14 will be issued on Friday, June 21st. Thank you all for  
15 coming.

16 (Whereupon at 11:19 a.m., the preliminary  
17 conference was adjourned.)

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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: 5-21-19

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary

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: 5-21-19

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.

SIGNED: Duane Rice  
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