

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
CERTAIN COLOR TELEVISION RECEIVERS) Investigation No.:
FROM CHINA AND MALAYSIA) 731-TA-1034 & 1035
) (Preliminary)

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Friday,
 May 23, 2003

Room 101
 U. S. International
 Trade Commission
 500 E St., SW
 Washington, D.C.

The conference commenced, pursuant to Notice, at 9:34 a.m., before the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, Presiding.

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1 their views. The staff will ask questions of each panel
2 after their presentation, but no questions from opposing
3 parties will be permitted. At the conclusion of the
4 statements from both sides, each side will be given 10
5 minutes to rebut opposing statements and make concluding
6 remarks.

7 Speakers will not be sworn in. However, you are
8 reminded of the applicability of 18 USC 1001 to false or
9 misleading statements, and to the fact that the record of
10 this proceeding may be subject to court review if there is
11 an appeal.

12 Speakers are reminded not to refer in their
13 remarks to business proprietary information and to speak
14 directly into the microphones.

15 Finally, we ask that you state your name and
16 affiliation for the record before you beginning your
17 presentation.

18 Are there any questions?

19 (No response.)

20 MR. CARPENTER: If not, welcome, Mr. Hartquist,
21 please proceed.

22 MR. HARTQUIST: Thank you, Mr. Carpenter. Good
23 morning, members of the staff.

24 I must say this is a little bit deja vu in terms
25 of the litigation involving color television cases over the

1 years. I mentioned to someone this morning as we were
2 getting prepared that the first case I worked on when I came
3 into private practice in 1976 was a color television case.
4 And this fellow turned to me and said, "My goodness, I
5 graduated from elementary school that year."

6 So here we go again.

7 My name is David Hartquist of Collier Shannon
8 Scott, representing the petitioners, Five Rivers Electronic
9 Innovations, The International Brotherhood of Electrical
10 Workers, and The IUE-CWA, Industrial Division of the
11 Communication Workers of America.

12 We appreciate the opportunity to appear today to
13 discuss the impact that the unfairly traded imports from
14 China and Malaysia are having on the domestic television
15 industry. We have several witnesses that I will introduce
16 to you shortly that will discuss the impact of these imports
17 on domestic producers and the workers making television sets
18 in the U.S.

19 The Commission staff is certainly no stranger to
20 the television industry. Imports of TVs have seriously
21 impacted domestic producers and workers, but due to the
22 trade relief actions that were taken the industry survived
23 and indeed has done quite well until recently, which is a
24 surprise to many people in this country that there is a
25 domestic television producing industry.

1 The industry faces a new threat. Imports from
2 China and Malaysia have impacted the U.S. market
3 dramatically, and information on Chinese and Malaysian
4 volume increases and the very low prices going forward
5 strongly suggest that this impact will grow to threaten the
6 domestic industry's ability to survive.

7 In analyzing the impact the imports have had an
8 historical perspective I think is useful.

9 Chinese and Malaysian producers first entered the
10 market in the U.S. with small and medium-sized product
11 priced extremely low. U.S. producers didn't feel an
12 immediate impact from these imports, however, because
13 virtually all U.S. production of these screen sizes had
14 already ceased in the United States, partly as a result of
15 subject imports, and in fact now the production and the
16 imports consist of the large and very large screen sizes.

17 As foreign producers have greatly increased their
18 exports of the larger screen sizes, their impact has been
19 unmistakable. It's been felt most noticeably in the larger
20 sizes such as 25V and 27V product, roughly 25 and 27-inch
21 product, but the imports have been rapidly moving into the
22 very large screen market as well, TVs of screen sizes larger
23 than 27V, 27 inches.

24 U.S. producers are forced to either lower their
25 prices to maintain market share or they are forced to

1 retreat into larger and larger screen sizes, essentially
2 being squeezed up the TV food chain, if you will.

3 Several years ago U.S. producers ceded the small
4 and medium-sized market to imports. The only product area
5 left for U.S. producers are the larger and very large sizes.
6 Now the Chinese and Malaysian producers have demonstrated
7 their capability to produce these sizes and have shown a
8 willingness to sell the products well below market prices
9 forcing producers either to lower their own prices or lose
10 money, and forces producers out of those product lines
11 altogether.

12 The imposition of antidumping duties can stem the
13 injurious trend, restore fair pricing to the marketplace and
14 permit U.S. workers to maintain their jobs in this vital
15 industry.

16 The witnesses we are going to present to you this
17 morning have substantial experience in this industry and
18 represent the full range of producers and workers. We are
19 going to start this morning with Tom Hopson, who is the
20 President and Chief Executive Officer of Five Rivers
21 Electronic Innovations, LLC, a company you probably haven't
22 heard of because their names are not on the sets, but they
23 have produced many of the sets that are commonly known in
24 the U.S. market to date.

25 Tom will be followed by Troy Johnson, who is the

1 International Representative of the International
2 Brotherhood of Electrical Workers. Then following Troy, A.
3 J. Davis, Vice President of the IUE-CWA, Local 1106. That
4 os Sanyo's operations that he represents.

5 Then Kermit Dorsey will testify. He is Assistant
6 to the President of the IUE. He will be followed by Jeff
7 Johnson, who is Chairman of the Electronic Display and Tube
8 Division, Board of Governors, essentially the TV Picture
9 Tube Industry Association, and is appearing this morning as
10 an industry expert witness.

11 Then Dr. Patrick Magrath of Georgetown Economic
12 Services and Gina Beck will present the economic testimony.
13 And then I think you will find our last witness to be quite
14 interesting, Larry Lasoff of Collier Shannon is going to
15 attempt to lay out for you how NAFTA has affected this
16 industry with production of sets and components both in
17 Mexico and in the United States.

18 We are joined also by Mary Staley and Jennifer
19 McCadney of my firm.

20 So with that we will start with Mr. Hopson.

21 MR. HOPSON: Good morning. My name is Tom Hopson.
22 I'm the President and CEO of Five Rivers Electronic
23 Innovations LLC. Five Rivers is a major U.S. manufacture of
24 color televisions.

25 I am here this morning to urge the Commission to

1 make a preliminary finding that the U.S. color television
2 industry is being injured because of unfairly traded imports
3 from Malaysia and the People's Republic of China.

4 Some people in the United States are under a
5 mistaken impression that there are no television industries
6 left in the United States. I hope my testimony and the
7 testimony of other witnesses you here today will put an end
8 to this wrong impression.

9 Five Rivers is one of six U.S. producers of
10 televisions. In addition to our plant in Greenville,
11 Tennessee, Toshiba also produces TV in Tennessee; Sanyo
12 produces TVs in Arkansas; Sony produces TVs in Pennsylvania;
13 Orion produces TVs in Indiana; and Mashusta produces TVs in
14 Washington State.

15 Our Greenville plant has been making television
16 sets since 1963. In 1997, Five Rivers, a privately held
17 company, purchased the plant from Philips. For many years
18 we have been proud to continue on in the tradition of
19 Magnavox and Philips making TVs in the United States and we
20 believe we make an excellent TV.

21 TVs from other countries, particularly from
22 Mexico, had played an increasing role in the U.S. market.
23 Nevertheless, we are an extremely efficient producer and
24 base our extensive experience in this industry, and we have
25 always been able to participate in the U.S. market and make

1 a satisfactory return.

2 The situation has changed dramatically for the
3 worst in 2001, and has continued to deteriorate. Imports
4 from China and Malaysia have created havoc in the U.S.
5 marketplace. In my 24 years in the television business I
6 have never seen a similar or more worse situation.

7 Before I discuss the effects that dumped imports
8 have on our business, I would first like to describe quickly
9 the production operations at our facility.

10 At Five Rivers we currently make TVs with screen
11 sizes that are greater than 21V. Although smaller screen
12 size TVs were made at our plant at one time, U.S. producers
13 had to give us the small and medium screen size TV market
14 several years ago due to imports. Now the bread and butter
15 of our operations are 25 and 27V color TVs.

16 During the past year, approximately 48 percent of
17 our business consist of 25 and 27V analog TVs. We also make
18 projection TVs and we have made TVs with high definition
19 digital tuners. We are capable of producing any type of TV
20 that is made with a cathode ray tube, including the very
21 large screen TVs, combo TVs, and TVs that use flat screen
22 tubes. In fact, we are beginning production of flat screen
23 tube TVs in the next few months.

24 The production process used to make projection and
25 direct view TVs is a well established and the same basic

1 method is used worldwide. Our process begins with the
2 purchase of various components, particularly the color
3 picture tube and electronic components like the printed
4 circuit board. We at Five Rivers manufacturer most of our
5 own cabinets at our own facility in Johnson City and
6 Greenville, Tennessee.

7 These components are lined up in a typical
8 assembly line fashion and the various components are
9 inserted into the cabinet as the set moves down the assembly
10 line. We assemble, pre-heat, set up, test TVs at our
11 facility. We product TVs to our customer specifications,
12 but purchase all components or sales and maintain title to
13 components and finished product until it is sold to our
14 customers.

15 We believe we have a highly efficient, low-cost
16 operation. Yet as I begin testimony today we are finding
17 that we are simply not able to compete with the flood of
18 imports from China and Malaysia.

19 The deterioration has occurred in the marketplace
20 that has taken place very quickly. While we always knew the
21 Chinese were building substantial capacity to produce TVs,
22 we really began to feel the impact of this substantial
23 capacity in the U.S. marketplace during the second quarter
24 of 2001.

25 At that time we began to witness firsthand the

1 flood of low-priced imports that were coming in from Asia
2 and China in particular. By the end of 2002, they had
3 become a dominant force in the marketplace, driving prices
4 lower and lower.

5 Of course, competition is no stranger to the U.S.
6 television industry. Over the past 30 years the U.S.
7 television industry has experienced substantial competition
8 from overseas and has consolidated and changed ownerships.
9 But as I noted earlier, Five Rivers has been successful in
10 competing with producers not only from the U.S. but with
11 product from other countries, particularly Mexico.

12 But the nature of the newest competition from
13 China and Malaysia has been different. In just the past few
14 months we have seen our business change from a thriving
15 business to a struggling one. We have seen a drop in our
16 sales, in our prices, in our production volumes, and our
17 capacity utilization. We have had to go four-day work
18 weeks, and we have had to lay off workers.

19 Having experienced these problems, it should be no
20 surprise that our financial picture is not good. At present
21 our choices are simple. We either make a profit or close
22 down. While we believe we can maintain a profitable,
23 growing business, we will not be able to do so if this
24 unfairly traded imports from China and Malaysia remain
25 unchecked.

1 The imports from China and Malaysia have created
2 chaos in the marketplace in two respects:

3 First, the sheer volume of these imports in a
4 short period of time has caused us to lose sales. Secondly,
5 we have been forced to lower our prices on all makes and
6 models of our TVs just to stay in business.

7 We have been hardest hit in our mainstream product
8 line of 25V and 27V TVs. In looking at these recent pricing
9 declines, I think it's important to reemphasize a point that
10 I made a few moments ago. The production process for TVs
11 made with a color picture tube is based on a well-
12 established technology. Therefore, this product line is
13 distinct from other consumer electronic products that are
14 made with very new, cutting-edge technology.

15 As some members of the staff may recall, in the
16 mid seventies calculators were introduced in the market at a
17 cost of hundreds of dollars. Now they are given away from
18 free. When new technology incurs start-up costs, initial
19 prices may start out high, and then drop after these costs
20 are recovered.

21 The pricing declines we experienced in 2002,
22 however, were in no way due to the elimination of start-up
23 costs or in our company's reduction and its costs. There
24 was instead a much more direct cost -- unfairly traded
25 imports from China and Malaysia, and the pressure by our

1 customers to match those prices. Stated another way: Our
2 cost of making TVs has not changed over the past year, only
3 the TV prices have changed.

4 In fact, our outlook is that recent price declines
5 will continue because the Chinese and Malaysian TVs are
6 underselling us by significant margins.

7 I am sure many of you heard about the potential
8 changes in the TV industry, including new technologies and
9 digital broadcasting. In the years ahead we believe the
10 television industry will continue to evolve first to digital
11 TV capability of high-definition broadcast, and then perhaps
12 to a different non-CRT-based technologies.

13 We want to stay in this business and we must have
14 the investments in place to stay abreast of these changes.
15 We believe we make an excellent product and can compete
16 fairly with any other product in the world. The U.S.
17 television industry's future is jeopardized once again
18 however by unfairly traded imports.

19 Many years ago the antidumping duty orders
20 covering TVs saved this industry. We are again in need of
21 help so we ask the Commission to make an affirmative finding
22 in these investigations.

23 I appreciate the opportunity to appear before you
24 today and will answer any questions the staff may have.
25 Thank you.

1 MR. HARTQUIST: Thank you, Tom.

2 Troy Johnson.

3 MR. JOHNSON: Good morning. My name is Troy
4 Johnson. I am an international representative in the
5 manufacturing department of the IBEW here in Washington,
6 D.C. under the direction of International President Edwin
7 Hill.

8 We represent nearly 800,000 members, and probably
9 more than 70,000 of those are working in the manufacturing
10 and assembly right now.

11 My responsibilities include developing working
12 relationships with the management of corporations who employ
13 our members in addition to working closely with and
14 assisting the local unions with issues facing them in the
15 many industries of manufacturing, one of which is the
16 television industry.

17 In this capacity, I currently represent labor
18 interest at Toshiba's color television plant in Lebanon,
19 Tennessee. I also represented the workers who produced TVs
20 at the Sharp facility in Memphis, Tennessee prior to that
21 operation being moved to facilities in other countries.

22 I would first like to begin my testimony by
23 reemphasizing one point made by Mr. Hopson. While many
24 people may believe that there is no television industry in
25 the United States, to the contrary; there is a very real

1 industry, one that produces a wide range of television
2 models and employees over 4,000 workers both represented and
3 nonrepresented who make color television sets.

4 The majority of these workers have been employed
5 in the television industry for many, many years. I would
6 also emphasize the fact that the United States has some of
7 the most highly trained and skilled workers who manufacture
8 TVs in the world. This highly skilled and experience
9 workforce is critical to this industry.

10 As you will hear today, most of the U.S. TV
11 manufacturers are multinational corporations. Global
12 interest aside, these companies employ a large number of
13 U.S. workers who manufacture U.S. television sets. Thus it
14 is important to note that in this antidumping case more so
15 than many other cases U.S. workers have much at stake.

16 Many of the large multinationals that make
17 televisions in the United States have operations worldwide.
18 These companies will remain in business in these other
19 countries whether a single TV is made in the U.S. or not.
20 But as unfairly traded imports from China and Malaysia surge
21 into the marketplace, it is the U.S. workers who will be out
22 of jobs, essentially replaced by Chinese and Malaysian
23 workers.

24 In fact, the loss of jobs have already begun. At
25 the end of 2002, Sharp shut down television production at

1 its Memphis, Tennessee plant. Sharp does still employ more
2 than 400 of our members, but by the time TV production
3 ceased as of November 14, 2002, approximately 500 of our
4 members who were involved in the production of TV sets for
5 Sharp were no longer employed.

6 Despite its efficient workforce, Sharp simply
7 could not compete with the recent surge of unfairly traded
8 imports from China and Malaysia.

9 Toshiba workers are also experiencing harm now and
10 continue to be threatened by unfairly traded imports. The
11 company's Lebanon, Tennessee plant employs more than 700
12 skilled setmakers who have had jobs there for years.
13 Indeed, the plant is well established and is an important
14 employer in the local community.

15 Toshiba's U.S. production facility manufacturers
16 over 60 different types of television models on six
17 production lines. Toshiba's top models include TVs made
18 with flat tubes and combination units that include a TV with
19 a video/recorder, the so-called combo units.

20 In January of this year, Toshiba was forced to lay
21 off approximately 100 workers due to the saturation of
22 television sets in the market. Although many of our workers
23 have been brought back from this layoff, the outlook for
24 Toshiba has not been good. Because the workers continue at
25 their jobs in a state of uncertainty, some of these recalled

1 workers chose not to return to this industry and decided
2 upon different career choices.

3 While the workers at the plants making U.S.
4 television sets are experiencing these troubles, they are
5 not the only workers that have been harmed and that are
6 threatened by unfairly traded imports from China and
7 Malaysia. U.S. workers in related upstream industries are
8 also threatened.

9 Over 10,000 U.S. glass and tube makers contribute
10 materials to TV set manufacturing and assembly facilities in
11 the United States. The difficulties caused by unfairly
12 traded imports impact these workers as well. Substantial
13 reductions in production and indeed whole plant closures in
14 just the last few months have resulted in the loss of
15 hundreds, if not thousands, of jobs.

16 Within the past year, Philips ceased TV tube
17 production at its Ottawa, Ohio facility, which is
18 represented by the IBEW, at the cost of nearly 2,000 jobs.
19 Corning Asai Video recently announced a shutdown of its
20 plant dedicated to the production of TV glass in
21 Pennsylvania and other U.S. tube manufacturers have also
22 been announcing layoffs. Thus the impact on U.S. jobs
23 reaches far beyond those making television sets.

24 The U.S. TV industry and its workers have faced
25 difficult times in the past. While they have been able to

1 meet and overcome these past challenges, this new challenge
2 poses something quite different. The subject countries in
3 this investigation, China in particular, have labor bases
4 reaching into the millions. Thousands of these workers are
5 already dedicated to the TV industry and these countries
6 would like nothing better than to add more. Indeed, they
7 have the will and the capacity to do so.

8 Given that the majority of TV production in both
9 of these countries is export oriented, the continuance of
10 unfair trade will only increase the volume of exports. For
11 U.S. producers this translates not only into an increase of
12 unfairly traded imports with which they cannot compete, but
13 also an expedient increase in lost jobs.

14 Based on the current plant closures and layoffs,
15 the injury and threat of injury to U.S. televisions
16 producers and workers is of utmost concern to the IBEW. I
17 appreciate the opportunity to convey to you our concerns and
18 the concerns of the American workers in this industry.
19 Thank you.

20 MR. HARTQUIST: Thank you, Troy.

21 We now will turn to A. J. Davis.

22 MR. DAVIS: Good morning. My name is A. J. Davis.
23 I am the Vice President of the IUE-CWA, Local 1106, which
24 represents workers that make TV sets for Sanyo Manufacturing
25 Corporation.

1 Sanyo is located in Forest City, Arkansas. I have
2 been employed in the Forest City plant for over 30 years,
3 and have been making television sets during that time.

4 As you have just heard from Troy Johnson, workers
5 making television sets in the United States are in serious
6 trouble. Imported televisions from China and Malaysia have
7 begun to flood the U.S. market and jobs are being taken
8 away. We at Sanyo have also experienced serious
9 difficulties as a result of these imports.

10 Before I describe the problems we have been
11 facing, I would first like to say I agree wholeheartedly
12 with Mr. Johnson describing the workers making television
13 sets here in the United States. As I mentioned earlier, I
14 have been making television sets for 30 years.

15 Sanyo could not have stayed in business so long,
16 this long without a dedicated, highly-skilled workforce. My
17 co-workers and I have many, many years of experience and we
18 take much pride in our work. We operate in a very
19 efficient, modern facility. We make a wide variety of TV
20 models, all with screen size over 21V. Our product line
21 includes TVs made with flat tubes. We make a high-quality,
22 competitive product.

23 But our experience and training is no match for
24 the flood of Chinese and Malaysian TV sets. Sanyo has six
25 lines, production lines, but currently only two are

1 operating. This shutdown in production operations have been
2 very recent, over the last few months. But Sanyo had 624
3 employees at the beginning of 2002, now there are only 391
4 workers. As a consequence, the hours and wages of all Sanyo
5 workers have been hurt due to these shutdowns.

6 In my discussion with the Sanyo management staff,
7 Sanyo, and I learned that Sanyo had been forced to take
8 these steps because they are losing business to the imports
9 of China and also Malaysia.

10 To sum up, we are a high, competitive, very
11 efficient workforce, but our jobs are now at stake, not
12 because of competition from more efficient workers, but from
13 unfair trade imports. We believe that this Commission
14 should make an affirmative finding that these imports have
15 caused injury to us. Thank you.

16 MR. HARTQUIST: Thanks, A. J.

17 Our next witness is Kermit Dorsey of the IUE.

18 MR. DORSEY: Good morning. My name is Kermit
19 Dorsey. I am the assistant to the president of IUE-CWA,
20 District 7. For 11 years, I have represented labor
21 interests at the Five Rivers Electronic Innovations and
22 Philips, which is located in Greenville, Tennessee.

23 I am here today to testify about the problems that
24 have been created for workers at Five Rivers because of the
25 unfairly traded TVs of Malaysia and Chinese origin.

1 By way of background, Five Rivers operates a
2 state-of-the-art, highly modernized television set
3 manufacturing plant which when fully operating employs about
4 700 workers. They make a variety of TV models. The plant
5 has been operating in Greenville since 1963, and some of its
6 workers have been there just that long. In fact, for some
7 of these employees making televisions at the Greenville
8 plant has been the only job they have ever had.

9 While the corporate ownership of the plant has
10 changed throughout the years, both the union and workers
11 have remained constant. Indeed, the plant is one of the top
12 Tennessee employers and is vital to the local and its
13 communities.

14 Recently the workers at Five Rivers have seen
15 serious changes in the operation. As you heard earlier from
16 Mr. Hopson, Five Rivers has been experiencing significant
17 difficulties due to surge in imports from Malaysia and
18 China. Not surprisingly these difficulties have had a
19 serious harmful impact on the workers at the Greenville
20 plant, and Five Rivers has been forced to cut back
21 production of TVs. There have been layoffs and the
22 remaining workers have had to accept shorter work weeks,
23 resulting in a reduction of workers' total compensation.

24 At the beginning of 2002, the plant employed
25 approximately 700 workers, and operated seven production

1 lines. Today, the plant employs 500 workers, has closed
2 three production lines, and does not operate at levels that
3 are close to its full capacity. The company's current
4 position stands in stark contrast to its potential, and the
5 situation only threatens to get worse.

6 The workers at Five Rivers are well aware of the
7 impact that imports have had on the U.S. producers. In
8 particular, they are aware of the Sharp plant closures and
9 layoffs and have affected our workers in the television
10 industry. The question on nearly every Five Rivers
11 employees' mind is not if, but when they will endure similar
12 cutbacks.

13 News of the closures and layoffs only underscore
14 the reality and dumped Chinese and Malaysia's imports are
15 having an immediate and direct impact on U.S. jobs. I hope
16 you find this testimony helpful, and I thank you very much
17 for your time and your attention.

18 MR. HARTQUIST: Thank you, Kermit.

19 Next is Jeff Johnson.

20 MR. JEFF JOHNSON: Good morning, Mr. Carpenter and
21 Commission staff.

22 My name is Jeff Johnson, no relation to Troy who
23 spoke earlier. I am Chairman of the Electronic Display and
24 Tube Division, Board of Governors, which is the Television
25 Picture Tube Industry Association.

1 In the course of my career, I have worked for
2 three U.S. companies selling components to the domestic U.S.
3 color television industry, spanning a period of about 30
4 years. The companies I worked for sold television
5 components directly to most U.S. producers of color
6 television sets, including Orion, Toshiba, Sanyo and Five
7 Rivers. The producers use these components to manufacture
8 color television in the United States.

9 Based on my career experience in the television
10 industry, I can state that from the consumer's viewpoint
11 there are no unique differences between U.S.-produced color
12 televisions and televisions from China and Malaysia.

13 There is nothing in the appearance of the sets,
14 their use, nor their performance which would differentiate
15 between sets produced in the U.S. and sets produced in China
16 and Malaysia.

17 As shown in the chart being shown on the screen
18 right now, U.S. color television producers are located
19 throughout the United States, from the west coast in
20 Washington State to the Midwest in Arkansas, and further
21 east in Indiana, Tennessee, and Pennsylvania.

22 One of the companies for which I worked sold
23 picture tubes, including tubes with curved and flat screens
24 to many of the U.S. TV manufactures for the production of
25 25V, 27V and 32V direct view color televisions.

1 As a result, I have spent much time studying the
2 market of our customers, which is the U.S. television
3 market. I want to clarify that when I refer to flat screen
4 color TVs I mean direct view color TVs with flat surface
5 tubes often referred to as flat screens, not to be confused
6 with the very expensive panel displays like Plasma and LCD.

7 One can readily see the difference since the flat
8 screen tube direct view television is 17 or more inches in
9 depth whereas as a flat panel television is only around
10 three or four inches in depth.

11 U.S. TV producers today focus on producing large
12 and jumbo, or very large direct view televisions and
13 projection televisions. Large sets are defined as sets with
14 diagonal viewing dimensions larger than 21 inches but
15 smaller than 30 inches. Jumbo, or very large sets, are sets
16 with diagonal viewing dimensions ranging from 30 to 40
17 inches.

18 The aspect ratio, which is the ratio of the width
19 to the height of the picture, can be either the traditional
20 four by three or the new wide screen 16 by 9.

21 The Chinese and Malaysian-produced televisions
22 include large and jumbo models with curved and flat surface
23 tubes as well as smaller-sized TVs and combination units, TV
24 sets with VCRs and/or DVD players in the same unit, and
25 projection television.

1 These imported televisions have the same types of
2 tubes, tuners, chassis, cabinets and other components as the
3 U.S. manufactured TVs. Regardless of the course,
4 televisions have the same basic end use, for viewing
5 entertainment and educational programming signals from over-
6 the-air broadcasts, cable, satellite, VCRs, DVDs, and game
7 systems.

8 Although the television vary in sizes, screen
9 types and other options based on consumer preference, there
10 is virtually no visible difference between foreign-produced
11 and domestically produced color televisions. The imported
12 and domestic color televisions are interchangeable and
13 directly competitive in the U.S. market.

14 Over the 30 years I have spent in the television
15 industry, retailers have increased their purchasing power in
16 the market and the major criterion for their purchasing
17 decision is price. Imported and U.S.-produced color TVs are
18 sold through the same channels of distribution, primarily to
19 retailers that in turn sell to consumers. Retailers include
20 electronic retail stores such as Circuit City, Best Buy and
21 Sears, and mass merchandisers such as Wal-Mart and K-Mart.
22 These major retailers as a group have increased their market
23 share of TV sales over the years at the expense of regional
24 chains and mom and pop local stores.

25 Today, the top five retailers account for about 65

1 to 70 percent of all sets sold in the U.S. versus about 40
2 percent 10 years ago.

3 Color TVs are imported from China and Malaysia by
4 companies that resell to the retailers, and recently
5 retailers have also begun to import directly as well. The
6 increased share of the top five retailers, combined with the
7 high competition among them, and the recent development of
8 high volume direct import purchases by large retailers, have
9 intensified the importance of price in the market.

10 Price is by far the single most important selling
11 point used by retailers in promotion television set sales.
12 In many retail store displays the prices of sets are clearly
13 labeled and visible from several feet away, but the brand
14 names and the features can only be seen through much closer
15 inspection.

16 Printed ads follow similar tactics. Here is one
17 that came out this morning where you can't even find the
18 brand in the ad.

19 As a result, sales of imported televisions at ever
20 lower prices have a substantial negative impact on both U.S.
21 producers' sales and prices and their resulting profit.

22 Given this emphasis on price as a sales tool and
23 the intense competition among the major retailers,
24 understandably their main concern in purchasing TVs is
25 obtaining the lowest possible price. It is unimportant to

1 the retailers whether they purchase TVs that are produced
2 domestically or by a foreign manufacturer as long as the
3 product meets their price target.

4 In a market dominated by a small number of high
5 volume retail outlets, U.S. color TV companies simply cannot
6 afford to lose those accounts. In order to maintain
7 business with these customers U.S. producers are forced to
8 match the prices of the imported sets.

9 Given the direct competition between imported
10 color TVs and U.S.-produced color TVs for this relatively
11 small pool of customers, there is no doubt that low import
12 prices of color TVs affect U.S. producers' prices.

13 A visit to the retailers mentioned previously will
14 show that the brands imported from Asia have the lowest
15 prices in every segment in which they compete.

16 I appreciate very much the opportunity to appear
17 before you today, and hope that my testimony will be
18 helpful. Thank you.

19 MR. HARTQUIST: Thank you, Jeff.

20 We now turn to Dr. Magrath.

21 MR. MAGRATH: Thanks, Skip.

22 Good morning, Mr. Carpenter and members of the
23 Commission Staff, ladies and gentlemen.

24 My name is Patrick Magrath of Georgetown Economic
25 Services. With me today manning the overhead is Gina Beck,

1 also of Georgetown Economic Services, who will also be
2 providing testimony. Together we will present testimony as
3 to the volume, price, impact and threat of unfair imports of
4 color televisions from China and Malaysia on U.S. producers
5 of these items.

6 In a nutshell, the industry producing CTVs in the
7 United States has contracted and its remaining members are
8 in decline. Imports over the period have been nothing short
9 of spectacular in their trend. Model by model price
10 comparisons will show significant underselling by the
11 subject imports resulting in price suppression. And if
12 relief in the form of meaningful antidumping duties are
13 imposed by the government in this case, this injury will
14 broaden and deepen.

15 The word "spectacular" that I just used in
16 describing the subject imports trends is not used lightly,
17 and we have the first chart.

18 How else would you describe the data in this chart
19 which shows the volume of subject imports rising from
20 approximately 210,000 units in 2000, just 2000, by more than
21 ten-fold in only two years to almost 2.7 million units?

22 We can anticipate how opponents of this case will
23 try to minimize these huge import increases. The rebuttal
24 will be twofold. First, they will say that that a
25 spectacular increase of nothing is still nothing. Not in

1 this case.

2 This spectacular increase in imports was
3 paralleled by like increase in the share of the U.S. market
4 from the low single digits in 2000 to over 15 percent of the
5 total U.S. market in 2002. Furthermore, subject imports
6 have continued to surge in the most recent three-month
7 period of this year, which you are capturing in your
8 database. Increasing an additional two-and-one-half-fold
9 from the January - March 2002 levels.

10 The share of the U.S. market is magnified by
11 certain conditions of competition the Commission will find
12 to be important as background factors in this analysis.

13 Mr. Johnson just detailed the primary importance
14 of price in purchasing decisions, and the structure of the
15 U.S. market which is dominated by a relatively few giant
16 retailers who exercise substantial market power over vendors
17 and vendors pricing.

18 A market share in excess of 15 percent and rising
19 expeditiously as this is should certainly be considered
20 significant, especially for the requirements of a primary
21 phase of an investigation.

22 The second rebuttal as to the volume of imports
23 can be summed up in one word -- Mexico. Color television
24 from Mexico have been the largest source of U.S. exports in
25 the period of investigation. The volume of imports from

1 Mexico, however, was created and are sustained by the NAFTA
2 agreement, of which we shall hear more later.

3 The increase in the volume of these imports from
4 2000 to 2002, that is, NAFTA imports, from 550,000 units are
5 dwarfed by the over 2.4 million unit increase in imports
6 from China and Malaysia. The data will show color
7 televisions from Mexico lost market share in the POI, and
8 that market share loss is accelerated in the first quarter
9 of 2003.

10 The data also show that average unit values of
11 imports from Mexico, and we believe prices, to be
12 substantially higher across all models and screen sizes than
13 those from the subject import countries.

14 Finally, imports from Mexico have had a large
15 presence in the U.S. market for some time. As Mr. Hopson
16 testified, the industry has adjusted to import competition
17 from Mexico, and up until recently was beating it.

18 Further, we believe industry data for 2000,
19 beginning of the POI, with Mexico exporting to the United
20 States only a little less than it does now, but before the
21 onslaught of imports from China and Malaysia began, will
22 show the U.S. industry in a state of relative health in that
23 year.

24 In short, there is little or no relation between
25 the downward spiral which characterizes the U.S. CTV

1 industry today and the stable volumes of imports from NAFTA
2 signatory, Mexico. There is, however, and direct and strong
3 relation between the deterioration of the U.S. CTV industry
4 and the significant and surging volume of imports from the
5 subject countries.

6 Gina.

7 MS. BECK: Good morning, Mr. Carpenter, Mr.
8 Deyman, and Commission staff.

9 My name is Gina Beck, and I am economist with
10 Georgetown Economic Services, consultants to petitioners. I
11 will demonstrate this morning how the volume and price
12 effects of subject imports have had an injurious impact on
13 the domestic CTV industry.

14 Dr. Magrath just described the rapid influx of CTV
15 imports from China and Malaysia; again, as you can see from
16 the chart above. And this surge of low-priced imports have
17 manifested itself in numerous way with a negative effects,
18 including substantial U.S. price declines leading to lost
19 revenue, lost sales, and an erosion in the industry's
20 financial performance, particularly in the second half of
21 2002 and first quarter of 2003.

22 The reason import surge is not hard to ascertain,
23 these surging import volumes from China and Malaysia were
24 achieved by aggressive pricing practices with import prices
25 declining significantly over the POI, and undercutting U.S.

1 producers' prices. The record evidence establishes that
2 U.S. price depression and lost market share have been the
3 result.

4 Specifically, data for 27V televisions that
5 represent one of the highest volume products produced by
6 U.S. producers and importers as presented on a quarterly
7 basis in the petition at Exhibit 3 shows petitioners' prices
8 declining by over 30 percent over the POI. During the same
9 period subject imports undersold U.S. producers by margins
10 ranging up to 40 percent.

11 Although import AUVs include set sizes other than
12 37V models, since the HTS category includes 21-inch to 30-
13 inch models, 27V sets are one of the most common models and
14 consequently petitioners believe that the underselling
15 comparisons are probative until import data become available
16 in response to the Commission's importers questionnaires.

17 I would like to point out that the degree of U.S.
18 price depression and suppression is particularly dramatic
19 given that petitioners' prices for 27V step-up models have
20 approached 27V basic model prices. In addition, 32V
21 television showed a significant decline in petitioners'
22 prices.

23 As Mr. Johnson discussed, the primary channels of
24 distribution for sales of U.S.-produced and imported CTVs
25 are distributors and retailers. It is petitioners' belief

1 that CTVs being imported directly by retailers may be at
2 prices even lower than to distributors. As a result of this
3 head-to-head competition between imports and domestic
4 product, the impact of low import prices on the U.S.
5 producers' prices cannot be ignored.

6 Petitioners' U.S. price decline over the POI
7 correlates directly with the huge influx of imports from
8 China and Malaysia in 2001, and even more in 2002.

9 The next issue that I will examine is the impact
10 of the subject imports on the U.S. industry's trade data and
11 financial results.

12 The increase in imports from China and Malaysia
13 has resulted in domestic producers loss of the sales volume
14 and resultant production cutbacks. Petitioners' U.S.
15 shipments showed a substantial drop from 2000 to 2002.
16 Production reductions in 2001 and 2002 resulted in falling
17 capacity utilization, raised to disparaging low levels
18 despite ample U.S. capacity to supply customers'
19 requirements.

20 U.S. producers have been unable to supply more
21 product because they cannot afford to compete with the
22 prices offered by Chinese and Malaysian producers. Not
23 surprisingly, U.S. CTV companies have implemented numerous
24 production cutbacks, including Sony's closure of four lines
25 as mentioned by Mr. Davis, and Sharp's production shutdown.

1 It has been painful for the domestic industry to
2 implement more production curtailments as imports captured
3 more U.S. market share.

4 The last of U.S. producers' market share and
5 shutdown of domestic CTV production lines also caused
6 layoffs and the loss of numerous jobs to U.S. workers.
7 Petitioners' production and related workers dramatically
8 declined over the last three years. In an effort to
9 complete with imports U.S. producers have made business
10 decisions that have directly affected the livelihood of U.S.
11 workers.

12 The deteriorating financial condition of the
13 industry is demonstrated in Petitioners' net sales value
14 falling over the POI, and profitability deteriorating as
15 prices fell dramatically.

16 As Mr. Hopson indicated, the CTV industry is one
17 that cannot sustain this level of severely low-priced import
18 competition year after year, and within a matter of a month
19 or two a U.S. producer can be forced to shut down entirely
20 its domestic operations.

21 The causal link between the rising volume of
22 imports and declining trade and financial indicia that I
23 mentioned is corroborated by lost sales and revenue
24 information provided in the petition, and more examples that
25 are being supplied by other U.S. producers in response to

1 the Commission's producers questionnaire.

2 Thank you for your attention.

3 MR. MAGRATH: Thank you, Gina.

4 To conclude, we would like to make a few point on
5 threat.

6 In terms of unused capacity and additions to
7 capacity, China is the largest producer of both color
8 television and color picture tubes in the wold. Market
9 research in our petition on this industry show that although
10 a substantial capacity exists that is unused in China and
11 despite the fact that severe trade restrictions existed in
12 other export -- in the major export market for color
13 television exports for China, the EU, major producers and
14 exporters are inexplicably increasing and increasing greatly
15 CTV capacity.

16 The staff should pay close attention to the
17 questionnaire responses of the number one Chinese producer
18 and exporter to the United States, Changhong, as well as
19 major producer/exporters, TCL and Skyworth among others.
20 These responses should list major CTV expansion plans in the
21 near future.

22 The provision of the threat statute also charges
23 the Commission to take into account "the availability of
24 other export markets to absorb any additional exports." In
25 fact, a stiff antidumping order against both Chinese and

1 Malaysian CTV imports into the EU has been in place since
2 1991, effectively reducing such imports.

3 In August of last year, seven major Chinese
4 producers succeeded, if you can call it that, of replacing
5 the dumping duty of 44 percent with a voluntary quota of
6 400,000 sets, and that includes all screen sizes, not just
7 the ones that are subject to this investigation; 400,000
8 sets annually to be gradually liberalized to 1 million sets
9 in 2007.

10 Either of these figures in the context of
11 worldwide exports from China in 2002 or 15 million sets is a
12 trifle.

13 It should be noted that Malaysian CTVs are also
14 subject to a hefty 25 percent antidumping duty in the EU as
15 well, and because of that will continue to target the U.S.
16 market.

17 Another threat factor is whether merchandise is
18 entering at prices that are likely to have significant
19 depressing or suppressing effects on domestic prices. We
20 have not as yet seen specific model-by-model pricing for
21 U.S. producers except for Five Rivers. Certainly Five
22 Rivers data shows such significant price suppression and
23 depression.

24 Certainly the rough indication of subject import
25 price trends provided by average unit values show steep

1 declines in such unit values from China and Malaysia.

2 Finally, it is hard to explain away these huge
3 volume increases and the rapid increase in market
4 penetration for what are primarily standard, mature consumer
5 electronic products by the subject countries without
6 prominent reference to significant underselling. That is
7 how you buy market share.

8 As I said, no party has the pricing data yet, but
9 you might look at last Sunday's ad or the Sunday before that
10 or the Sunday before that of Circuit City, Best Buy, or
11 better yet visit one of these giant retailers to see how the
12 Changhong/Apex 24V, 27V, or the Funai/Sylvania large screen
13 combo units are priced relative to comparable sets beside
14 them on the shelf.

15 I have, and let me just say that such visits will
16 not contradict our pricing arguments.

17 Another threat factor is the significant rate of
18 increase of the volume of market penetration of imports.
19 Again I refer you to our chart. As the saying goes, one
20 picture is worth a thousand words. But the totality of the
21 threat posed by the volume increases and probably the most
22 important threat argument we want to present to you today is
23 seen only in a wider context.

24 The threat of an even greater volume and market
25 share of subject imports results in either further and even

1 greater injury is in no way speculation. It has happened
2 before and it has happened recently, and has happened to
3 this industry.

4 We have just discussed the well recognized fact
5 that China is the largest producer of color televisions in
6 the world and producers there are rapidly increasing
7 capacity, but most significantly by Changhong whose U.S.
8 brand Apex is already distributed across the United States.

9 We have presented evidence of the many global
10 consumer electronic firms who make TV tubes and television
11 in the subject countries, and pointed out that the famous
12 brand names these multinationals are associated with --
13 Philips and Magnavox, RCA, Panasonic, Sylvania, Symphonic --
14 are already present in a handful of consumer electronic
15 giant retails -- Best Buy, Circuit City, Sears, Wal-Mart --
16 that account for the great majority of consumer TV purchases
17 in the United States.

18 So we hope the Commission and the staff can
19 readily agree that China and Malaysia individually or
20 combined have the ability to rapidly penetrate the U.S.
21 market given their huge capacity, low prices and the fact
22 that only one or two deals with these giant retailers
23 mentioned above will cause a huge shift in the source of
24 CTVs sold in the United States.

25 The ability to continue this rapid penetration of

1 the U.S. market is present, but do these suppliers have the
2 willingness? The \$64 question here, and that's a good
3 figure, that's about how much you can get a big screen TV
4 from China and Malaysia these days, the \$64 question is, how
5 likely is this takeover of the U.S. market to continue.

6 Let's show you some solid indications of the high
7 probability that these recent and very large increases are
8 likely to continue at the same time hopefully debunk some
9 potential arguments you may hear later this morning.

10 There is the next chart. Thank you, Gina.

11 This chart shows color television products, only
12 three of which, the three on the right, are included in the
13 petition. The two sets of bars on the left, import market
14 share, market share of small and mid-sized CTVs, as the
15 names indicate, are only smaller versions of the like
16 product.

17 Look who has taken over the U.S. market in the
18 last five years for these very similar products. Small
19 screen growth of the subject countries imports doubled
20 market share, U.S. market share to 44 percent. In the last
21 five years subject country share of mid-sized CTVs, which up
22 until a few years ago were the mainstay of U.S. production
23 and now aren't even produced in the United States,
24 quadrupled share to 40 percent.

25 On this chart look how rapidly the subject

1 countries have succeeded in dominating the U.S. market for
2 the two size categories of TVs, only immediately smaller
3 than those included in the petition.

4 Hopefully this will put the huge import increases
5 in imports of CTV products to the right of the chart, which
6 are in our case, in the proper perspective. In merely three
7 years subject imports have increased their share of total
8 imports of large screen TVs from only two percent to 25
9 percent, over 12-fold.

10 Does anyone here besides the professional
11 naysayers in back of us think that the subject import
12 penetration of the U.S. large and very large screen markets
13 will not continue given what has happened to the screen size
14 markets immediately below them?

15 And as the U.S. market evolves, as the threat
16 provision foresees "a derivative and more advanced versions
17 of the like product" are developed, and the market begins to
18 demand more digital, more high-definition ready sets, does
19 anyone doubt that imports from China and Malaysia will
20 follow a less spectacular trajectory in volume and the
21 product increases of such product as HTD TV, wide screen or
22 projection TV as these alternatives to conventional analog
23 televisions become more accepted in the marketplace?

24 Thank you very much. That concludes our
25 presentation, Skip.

1 MR. HARTQUIST: Thank you, Pat.

2 Our last witness will be Larry Lasoff.

3 MR. LASOFF: Mr. Carpenter, could I get a time
4 check, please, approximate?

5 MR. CARPENTER: Eight minutes.

6 MR. LASOFF: Thank you very much.

7 Mr. Carpenter, members of the staff, my name is
8 Larry Lasoff from Collier Shannon Scott. I would like to
9 conclude the domestic industry's presentation this morning
10 with a brief discussion about one of the most important
11 conditions of competition underlying this case, the North
12 American Free Trade Agreement, or NAFTA.

13 The U.S. color television industry, including its
14 principal tube and glass suppliers, has undergone
15 substantial change over the past decade. Currently there
16 are 35 color television, color picture tube and television
17 glass production facilities in North America. While many
18 erroneously believe that there is no longer a U.S.
19 television industry, in fact, more than half of these
20 facilities are located in the United States.

21 The entire North American television industry,
22 including CPT and glass production, employs between 30 and
23 40 thousand people, including about 10,000 to 15,000 people
24 in the United States.

25 Most of the North American facilities, including

1 many of the recent investments and upgrades, have been
2 directed at the production of large and very large screen
3 size televisions. These products comprise the future of the
4 U.S.-based industry's business.

5 North American investment in CTV and CPT
6 production has been spurred by duty-free treatment within
7 the NAFTA region and by the NAFTA customs regime which
8 encourages full sourcing of television components and
9 materials within North America.

10 The Commission determined in the recent sunset
11 investigation concerning color picture tubes that NAFTA
12 provided a significant incentive for localized CTV and CPT
13 production.

14 Besides the investment in the United States,
15 Mexico has attracted investments due to NAFTA, lower labor
16 costs and its proximity to the U.S. market. The investment
17 has not only been with respect to CTV production but CPT
18 capacity has been added as well. U.S.-based glass producers
19 have also been beneficiaries of these developments.

20 Consequently, the CTV and CPT industries represent
21 significant financial investments, employment, and tax base
22 for both the United States and the Mexico.

23 The continued investments in both the United
24 States and Mexico were the intended results of NAFTA. The
25 NAFTA goal of an integrated North American television

1 industry necessarily contemplated production sharing across
2 national boundaries within the region with CPT production
3 performed by a multitude of producers in the United States,
4 and the final phases of CTV manufacture performed in both
5 the United States and Mexico.

6 There remains significant CTV production the
7 United States, particularly in connection with the large
8 screen size televisions that are the subject of this
9 investigation. Five Rivers, which produces large screen TVs
10 at its production facility in Greenville, Tennessee, is
11 typical of the companies that have evolved as a direct
12 result of the conditions created by NAFTA.

13 Importantly, much of the NAFTA investment has been
14 directed at the growing market preference for large screen
15 televisions and very large screen sizes, including wide
16 screen, high-definition televisions. It should also be
17 noted that the focus on larger screen size products, which
18 is to some degree a reflection of the fact that U.S.
19 producers had essentially ceded the small and medium screen
20 size markets to Asian-based producers.

21 Accordingly, it is the large screen size products
22 that represent the future of the North American-based
23 industry.

24 This background gives rise to a couple of critical
25 points that the Commission must take into account as it

1 proceeds in this investigation.

2 First, the integrated nature of the North American
3 market is such that the large volume of imports from Mexico
4 is the direct result of the NAFTA regime. Many, if not
5 most, of these products are from facilities that are
6 affiliated with U.S.-based producers of both CTVs and CPTs.
7 Indeed, most of the large screen CTVs are produced from
8 U.S.-made color picture tubes containing U.S.-made glass.
9 These imports are not injuring the U.S. industry and this
10 fact must be taken into account in the consideration by the
11 Commission of non-subject imports.

12 Second, the Commission should recognize that the
13 injury it will be evaluating in the course of this
14 investigation with respect to producers of large screen
15 televisions will also be reflected in the critical picture
16 tube and glass portions of the industry which also employ
17 thousands of U.S. workers.

18 I am not suggesting that as a legal proposition
19 that the Commission needs to investigate fully the state of
20 the color picture tube and television glass sector.
21 However, in looking at the conditions of competitions
22 generally the Commission should not ignore as direct
23 evidence of the fact that the U.S. television set industry
24 has suffered injury at the hands of Chinese and Malaysian
25 imports recent developments in the component and glass

1 sector. These developments directly reflect the injury
2 caused by dumped Chinese and Malaysian imports of CTVs.

3 For example, the largest producer of color
4 television picture tube glass, Corning Asai Video, as
5 previously noted, announced on April 15, 20003, that it
6 intends to cease production of cathode ray tube television
7 glass and that the decision was a result of a further
8 weakening of glass sales due in part to increased
9 competitive pressure from imports. Approximately a thousand
10 jobs in State College, Pennsylvania will be lost as a result
11 of that decision.

12 As previously noted by Mr. Johnson of the IBEW,
13 numerous line closures and workforce reductions in the US
14 CPT sector have also taken place within the last 12 months.
15 These developments are relevant if only to reaffirm the
16 compelling evidence of injury that the Commission will find
17 at the set level.

18 In the April 2000 sunset review in color picture
19 tubes the Commission determined that overall North American
20 industry had benefitted from, indeed was strengthened by
21 NAFTA, particularly in the larger screen sizes. Those
22 benefits were major factors in the Commission's decision to
23 sunset the orders on color picture tubes. That
24 determination preceded the presence of China and Malaysia as
25 a factor in the U.S. marketplace for the subject projects.

1 Three years later virtually every positive
2 indicator that led the Commission to remove the orders on
3 CPTs has turned downward. The NAFTA regime which spurred
4 millions of dollars of new investment in glass, picture
5 tubes and set assembly, and perhaps with the compelling
6 example of how a free trade agreement could strengthen an
7 industry on a continental basis, potentially lies in
8 shambles.

9 The benefits of a free trade arrangement that
10 maintains significant external tariffs on components and
11 finished products while ensuring the free movement of good
12 within the region have been overwhelmed by the surge of
13 these aggressively priced products.

14 Mr. Carpenter, that concludes that presentation of
15 the domestic industry this morning. Our witness would be
16 pleased to answer your questions. Thank you very much.

17 MR. CARPENTER: Thank you very much. I have a
18 couple of clarification questions to start out. I guess
19 first for Dr. Magrath on the last chart.

20 Is there any significance between the different
21 colors on there or do each of the columns represent
22 cumulated subject imports for all periods?

23 MR. MAGRATH: Right. Cumulated subject imports.
24 The different colors are just for contrast purposes, and the
25 bad guys will always be in red.

1 MR. CARPENTER: Okay. One other question in
2 relation to Ms. Beck's testimony. I'm not sure if I caught
3 this correctly, but I thought you had said something about a
4 convergence of prices in the 27-inch models between the
5 standard model and the step-up model, and I wasn't sure
6 whether you were saying that the step-up model was coming
7 closer in price to the standard model comparing domestic to
8 domestic, or whether you were saying the imported step-up
9 model was approaching the price of the domestic standard
10 model?

11 MS. BECK: Actually that comparison was in terms
12 of the U.S. price. So in other words, the U.S. price of the
13 step-up model which typically is a little bit of a premium
14 in terms of price has now approached the 27-inch basic
15 model.

16 MR. CARPENTER: Okay. Entirely for domestic-
17 produced products?

18 MS. BECK: Right, basic petitioners' pricing

19 MR. CARPENTER: Okay.

20 MS. BECK: Yes, at this point petitioners' pricing
21 is the data that we have.

22 MR. CARPENTER: Thank you.

23 And I guess just for the panel as a whole, is it
24 your position that -- I know we have collected data in the
25 questionnaires for various types of TV receivers and various

1 screen sizes. But is it your position that some types or
2 sizes have been more severely impacted by subject imports
3 than others, or is it basically across the board?

4 MS. BECK: We feel that the injury and the
5 depression in the prices have been across the board for all
6 products.

7 MR. CARPENTER: Okay, thank you very much.

8 We will start the staff questioning with Mr.
9 Timberlake.

10 MR. TIMBERLAKE: Good morning. Thank you for your
11 testimony.

12 I would like to first start my questioning with
13 Mr. Johnson. You made a reference to -- you stated that
14 many people believe that there is not a TV industry in the
15 United States.

16 What is the basis for that belief? Why do people
17 feel that there is no industry?

18 MR. JOHNSON: Well, in my opinion, this is my
19 opinion, the majority of the television manufacturers that
20 are in the United States are actually multinational
21 companies like I said earlier. So we have very few, many
22 more than Mr. Hopson's company here, that are actually
23 American-owned companies, and his name actually doesn't go
24 on the television sets.

25 So when you see names like Sanyo and Toshiba,

1 those in the minds of the consumer are made in another
2 country.

3 MR. TIMBERLAKE: Thank you.

4 I would like to direct a couple of questions to
5 you, Mr. Hopson. Did Five Rivers exist prior to its
6 acquiring of the Philips plant in 1997?

7 MR. HOPSON: No, sir.

8 MR. TIMBERLAKE: Okay. So Five Rivers was formed
9 for the purpose of acquiring that facility?

10 MR. HOPSON: Yes, sir.

11 MR. TIMBERLAKE: Since you acquired that facility,
12 have you made any capital improvements? And if so, would
13 you explain what they were in that facility?

14 MR. HOPSON: We have --

15 MR. TIMBERLAKE: If you think that's proprietary,
16 of course, you can submit it --

17 MR. HOPSON: Yes, we have made some capital
18 improvements and it's in our information submitted, so I
19 would like to keep it proprietary, please.

20 MR. TIMBERLAKE: Very good. How many production
21 lines do you run in that facility in terms of TVs?

22 MR. HOPSON: Okay, currently in the month of May
23 we are running four final production lines.

24 MR. TIMBERLAKE: And these are based on screen
25 sizes, are they?

1 MR. HOPSON: Yes.

2 MR. TIMBERLAKE: So you have large, very large
3 and?

4 MR. HOPSON: We run some lines that have large and
5 very large combined. In other words, we could run a 25V and
6 a 32V on the same production line.

7 MR. TIMBERLAKE: Now, does Five Rivers produce
8 products other than color TVs in that facility in
9 Greenville?

10 MR. HOPSON: We have -- of our total sales, we
11 have about two percent of our total sales is outside of
12 color televisions for Five Rivers.

13 MR. TIMBERLAKE: I see. And the production and
14 related workers that are employed by Five Rivers in the
15 production of color televisions, are they dedicated solely
16 to color televisions?

17 MR. HOPSON: Yes, sir.

18 MR. TIMBERLAKE: You indicated that you make the
19 cabinetry for your color television in that facility.

20 MR. HOPSON: Yes, sir.

21 MR. TIMBERLAKE: Do you manufacture any other
22 products that are part of the television in that facility?

23 MR. HOPSON: No, sir.

24 MR. TIMBERLAKE: Okay. Everything else, other
25 than the cabinets --

1 MR. HOPSON: Well, in some cases we make the total
2 electronics from the raw PC board, in some cases we don't.

3 MR. TIMBERLAKE: Okay. And how would you
4 determine whether you would produce it there or out-source
5 it?

6 MR. HOPSON: Normally it's the customer gives us a
7 target. And if we can meet the target, then we can produce
8 it. If not, it will be sourced.

9 MR. TIMBERLAKE: Okay.

10 MR. HOPSON: Also, I would like to say the people
11 that make the cabinets are not included in our numbers that
12 we used. We used Five Rivers employees only. The cabinet
13 division is a separate company that we have separated that
14 does some other work other than plastic cabinets, but they
15 furnish Five Rivers. So in all our data our cabinet
16 employees are not included.

17 MR. TIMBERLAKE: So then that the production and
18 related workers that you reported in the questionnaires --

19 MR. HOPSON: Solely television assembly.

20 MR. TIMBERLAKE: And would not include those
21 workers then that produce the cabinetry?

22 MR. HOPSON: That's how we answered the survey.

23 MR. TIMBERLAKE: Okay. All right, thank you.

24 That's all my questions.

25 MR. CARPENTER: Mr. deWinter.

1 MR. deWINTER: Thank you for your testimony this
2 morning.

3 My first question is to Mr. Hopson, just a couple
4 of background questions. When I look at this map that you
5 circulated around I recognize all the names on here, like
6 Sanyo, Sharp, Sony, but I don't recognize Five Rivers.

7 Why is that? What's different about Five Rivers?
8 Obviously these are brands that are -- the other ones are
9 brands that you see on televisions but I never see Five
10 Rivers on a television.

11 MR. HOPSON: We do not have a brand. We build
12 product for other customers; in other words, other brands.

13 MR. deWINTER: Okay.

14 MR. HOPSON: For instance, Philips, Samsung,
15 customers like that.

16 MR. deWINTER: Okay. So tell me a little bit
17 about your contracts. They are probably a little bit
18 different than these other companies. These purchasers of
19 yours will come to you to build a television for them?

20 MR. HOPSON: They will ask us to quote to build
21 certain models of televisions for them, and then we will do
22 the analysis and put basically the quote together. In some
23 cases the customer will determine the supplier. They will
24 tell us what supply base they would like to use. But we
25 order the parts, we pay for the parts, we do the assembly,

1 and we sell the finished product; build it to the customer
2 spec and then we sell it to the customer after, you know,
3 the finished product.

4 MR. deWINTER: And then that customer turns around
5 and sells it directly to a retailer?

6 MR. HOPSON: Yes, sir.

7 MR. deWINTER: Okay.

8 MR. HARTQUIST: Mr. deWinter, Mr. Jeff Johnson
9 would like to add some comments on this subject as well.

10 MR. deWINTER: Yes, please.

11 MR. JEFF JOHNSON: Yes. The situation with Five
12 Rivers is not necessarily unique in the marketplace with
13 Five Rivers. It's a trend that is occurring not only in
14 North America but around the worlds. It's what those in the
15 industry refer to as badging, meaning that the sets can be
16 made by somebody other than the label which goes on it, and
17 in fact that is occurring even within the brand names that
18 you are familiar with.

19 Some of the sets that have one of the brand names
20 up there are made by one of the other brand names up there.
21 It's an effort to be more cost competitive. If the volume
22 of a particular model is considered to be not big enough to
23 be cost effective within a particular brand name, they may
24 try to source it from somewhere else, wherever they can get
25 the best cost, and that other company may have a very cost

1 on that size of set. So this is not atypical.

2 MR. deWINTER: Thank you.

3 One more question for Mr. Hopson. You mentioned,
4 there was a mention somewhere about a step-up model. When
5 you produce televisions, do you produce obviously different
6 sizes but do you also produce different qualities within a
7 given size?

8 MR. HOPSON: Different feature levels.

9 MR. deWINTER: Okay.

10 MR. HOPSON: Different feature levels. If you
11 walk in a store.

12 MR. deWINTER: Right.

13 MR. HOPSON: And you look on the wall I think the
14 picture quality is going to look very close across the
15 board, but you may have a picture in a picture, or extra
16 jacks on the back, things like that.

17 MR. deWINTER: Okay. And you produce all kinds?

18 MR. HOPSON: We produce low end and low featured
19 and also the higher featured sets.

20 MR. deWINTER: And Mr. Magrath, the Chinese
21 imports that you have talked about earlier, do they have all
22 these features as well or are they strictly a certain type
23 of low end or mid range or high end?

24 MR. MAGRATH: They are all across the spectrum,
25 and you can look on their websites and you can also go to

1 Best Buy and Circuit City and see everything from the basic
2 model to the very high end, very feature laden TV sets.

3 MR. deWINTER: Okay. One more question for Mr.
4 Hopson. So when you are experiencing competition from
5 subject imports, how are you experiencing this?

6 Are your purchasers saying to you I can get a
7 television in China made cheaper, and imported cheaper than
8 I can get it made for your plant?

9 MR. HOPSON: We are told, and just yesterday I
10 received an e-mail from a customer that said we need to have
11 a meeting because the price we agreed to in January is
12 getting severe pressure, and we must look to reduce that
13 price again.

14 So in the past we have had agreements for, you
15 know, up to a year. Sometimes it will be tied to step with
16 volumes. The higher volume it will step down, you know,
17 once they meet those volume criteria. But recently we keep
18 having less than mid-year discussions. I mean, we will have
19 a meeting and we say the price pressures are too great,
20 we've got to do something, we can't go with the price we
21 agreed to.

22 MR. deWINTER: Okay.

23 MR. HOPSON: We have to do something else.

24 MR. deWINTER: Okay. So what you are saying is
25 your purchasers are coming to you and saying we can have a

1 television built in China for less than the price that you
2 are quoting us?

3 MR. HOPSON: They tell us that the prices that
4 they have will not compete in the marketplace.

5 MR. deWINTER: Okay.

6 MR. HOPSON: I don't recall anyone telling me
7 directly that it's because the Chinese sets, okay. But when
8 you look at the pricing and you look at where the price
9 depression is coming in the market, that's where it's
10 coming. We have always had some degree of price erosion in
11 consumer electronics in televisions. It's been a thing that
12 we have always had, but we have never had it to the degree
13 we have had it in the last couple of years.

14 MR. deWINTER: Okay.

15 MR. HOPSON: The percentages.

16 MR. deWINTER: I guess what I am getting at is
17 that the commissioners are going to have to look at what
18 level of competition, you know, you're claiming the injury
19 is occurring because Mr. Magrath is talking about Best Buy
20 and Circuit City and the price competition on the consumer,
21 you know, the retail shelf.

22 But what I hear you saying is you're experiencing
23 the competition at a different level. You are experiencing
24 it at the -- actually ordering the manufacturing end.

25 MR. HOPSON: Ordering manufacturing end, yes.

1 MR. deWINTER: Okay.

2 MR. HOPSON: Products that we built in our factory
3 are now being built in factories in China today.

4 MR. deWINTER: Okay. So your purchasers are in
5 fact turning to Chinese and Malaysia --

6 MR. HOPSON: Yes.

7 MR. deWINTER: -- producers to make televisions
8 instead of you?

9 MR. HOPSON: Yes.

10 MR. deWINTER: Okay.

11 MR. MAGRATH: Mr. deWinter, I think the obvious
12 complete answer to this is that the competition is at both
13 levels. Even the TV sets that he builds for Samsung or for
14 Philips, those -- the Philips salesmen have to go into Wal-
15 Mart and try to sell against a direct import from China, and
16 therefore the pressure will go back upstream.

17 MR. deWINTER: Okay.

18 MR. MAGRATH: Also, as Mr. Hopson just said, some
19 of his customers, current customers and foreign customers
20 have begun to source and are sourcing sets from China
21 themselves, and Malaysia themselves.

22 MR. deWINTER: Okay.

23 MR. MAGRATH: So it's at both levels.

24 MR. deWINTER: And I have one more question for
25 you, Mr. Magrath. If you could explain to me a little bit

1 about the Mexican imports. It sounds to me like -- I've
2 been hearing about the subject imports and Mexico.

3 Are there any other non-subject imports or is
4 Mexico really the --

5 MR. MAGRATH: Well, Mexico is the largest import
6 source throughout the period of investigation, and that --
7 as Mr. Lasoff and I briefly both testified, this is a result
8 of the NAFTA agreement and certain tariff preferences, and
9 an integration of the North American industry from only U.S.
10 to U.S. and Mexico to better compete with worldwide
11 competition both unfair and fair.

12 There are other non-subject imports. Mr.
13 Hartquist mentioned the former trade cases which have served
14 to limit imports from Korea, Taiwan, Japan way back when.
15 Currently, there are imports from Thailand that are
16 increasing, but the point I made in my testimony is that the
17 increase and the sheer volume of the subject imports far
18 overshadows increases from Mexico, Thailand and any other
19 source.

20 MR. deWINTER: Okay. And the Mexican product,
21 does it also compete in the exact same channels of
22 distribution? I mean, do we find them in Circuit City, Best
23 Buy, Sears and so on, and in all the ranges, sizes, and
24 quality, or are they niche products?

25 MR. JEFF JOHNSON: Yes. The products cover the

1 whole range.

2 MR. deWINTER: Okay. All right, so all qualities,
3 types, the step-up models, the very large, larger than 30-
4 inch television --

5 MR. JEFF JOHNSON: Yes.

6 MR. deWINTER: -- as well as the smaller ones?

7 MR. JEFF JOHNSON: Yes.

8 MR. deWINTER: Okay. And my last question is what
9 role does brand play in price?

10 I mean, you were implying that the consumers just
11 look at price, but from my experience I just bought a
12 television. That's why this case is interesting to me. And
13 even though it probably doesn't make much difference, I did
14 look at the brands as a sign of quality; you know, Sony,
15 Philips.

16 Can certain companies price higher for a similar
17 product just because of their brand name?

18 MR. JEFF JOHNSON: I'll give you my -- again this
19 is more of a personal opinion than a data-based thing. But
20 in the experience that I have seen in the marketplace you
21 can look at sort of price related to brand in two ways.

22 One is, certainly there are let's say lower end
23 brands, which would be, as Mr. Hopson referred to, sets with
24 lower features. Then there will be a middle level and
25 higher level brands which would have more features. And

1 certain brands tend to be associated with these higher or
2 lower levels, and of course, the higher levels will get
3 higher prices.

4 So you could say, well, yeah, this brand will get
5 a higher price than that brand, but I think the real
6 question that you're asking is within those categories does
7 any brand demand a premium for a similar featured set. Can
8 Ace Electronics get more for their 27V that's featured
9 exactly the same as Zebra Electronics?

10 And in that case, in my experience, the only brand
11 that can demand a premium for a similar featured product is
12 Sony.

13 MR. deWINTER: Okay. So other than Sony you
14 believe that a Philips and Toshiba will compete equally with
15 a Chinese-named brand or a Malaysian-named brand on the
16 market, just same features, just the brand?

17 MR. JEFF JOHNSON: Yes. If the features are all
18 the same, everything else being equal, I don't think the
19 brand will make a whole lot of difference.

20 MR. deWINTER: Okay. All right, thank you. No
21 more questions.

22 MR. CARPENTER: Mr. Thomsen?

23 MR. THOMSEN: I just have a few questions. I
24 guess I wanted to follow up with you, Mr. Johnson, about
25 that.

1 Recently, I actually had just bought a television
2 myself also, and having followed -- maybe it's because of
3 this case -- I don't know -- and it seemed that there were
4 still price differences on the retail level between brands
5 that had the same features. There definitely was a price
6 premium for a Sony-made product, which you had just noticed,
7 but it seemed like there was also a price difference between
8 a Samsung and a Toshiba, which, in your case, they should be
9 valued at the exact same price.

10 What, then, determines in the consumer's mind a
11 willingness to pay a higher price for a Toshiba than for a
12 Samsung, or even more to the point, for an Apex or Emerson
13 or Funai?

14 MR. JEFF JOHNSON: That's a very difficult
15 question to answer. Of course, lots of companies spend lots
16 of money on advertising to try to develop that situation. I
17 think it's probably just perception that's built up over
18 advertising and over years. If we go way, way back a number
19 of years, of course, the tube brands in North America, in
20 the U.S., that were prominent were Zenith and RCA, and there
21 was hardly anything else.

22 People that, I'm afraid to say, are older, like
23 myself, remember those brand names, and if your dad had one
24 of those, it always performed well, and if you bought one
25 the last time, and it performed well, you would tend to buy

1 that again. Therefore, surely, the newer names coming in
2 have a hurdle to get over of just the habit and the comfort
3 level with the older brand names.

4 MR. THOMSEN: And what are those names that you're
5 referring to? Are these the Chinese and Malaysian names, or
6 are these --

7 MR. JEFF JOHNSON: Today, it would be the Chinese
8 and Malaysian names. If you go back in time, as other
9 brands began to take the inroad over RCA and Zenith, between
10 the two of them, 20 years ago, they had more than 50 percent
11 of the market, and now, I don't think, between the two of
12 them, if they have 30, I would be surprised. So as the
13 market involves over time, new companies try to come in, and
14 each time a new company comes in, they have to start out by
15 being more aggressive. As that brand name picks up comfort
16 level in the market, then the difference declines.

17 And I think the other fact here over time is that,
18 again, in my opinion, the brand differential has decreased
19 in importance because of the evolution of the retail chain.
20 When I was a kid, if you wanted to buy a television set, you
21 went down to the local store, and you went to this store if
22 you wanted a Zenith, and you went to that store if you
23 wanted an RCA, but that's not the way it works anymore. So
24 I think the evolution in the retail industry has also
25 decreased the significance of brand differential. It may

1 still be there, but it's certainly at a much lower level
2 than it was 20 years ago.

3 MR. THOMSEN: Mr. Magrath?

4 MR. MAGRATH: Thank you, Mr. Thomsen. Certainly,
5 your questions and Mr. deWinter's questions -- we're all
6 buyers at this level, and I think that's going to be one of
7 our strengths for our side in this case, is that we all go
8 out there, and we look at all of this kind of stuff, and we
9 all have our preferences.

10 There are two things we would like you to
11 remember. Number one, chart one, which showed that huge
12 increase in China-Malaysia imports. This is not like
13 cigarettes. This is not like beer, where people are very
14 brand loyal. Obviously, something has moved the Chinese and
15 Malaysian sets, brand recognition or not, into the forefront
16 in terms of the market and in terms of these huge increases.
17 And don't forget, the Chinese, the biggest brand is Apex,
18 which a couple of years ago nobody ever heard of, so that's
19 sort of a no-name brand, but their sales have increased
20 tremendously because of their China sourcing.

21 Secondly, the largest producer in Malaysia, Funai,
22 a couple of years ago bought the brand names, Sylvania,
23 Emerson, and Symphonic. Sylvania, certainly, and also
24 Emerson are well recognized and have been for years in the
25 U.S. market. So, say, Craig Thomsen has always had Sylvania

1 TV sets, and he just thinks they are great, and he needs a
2 new one, but, you know, the one with the features he wants
3 is \$409, and that's a little too much, but then, boom, it's
4 on sale for \$299. Well, look on the box. Somewhere it will
5 probably say "made in Malaysia" or "made in China." Those
6 brands are the subject imports.

7 MR. THOMSEN: I just want to try to clarify. You
8 had just mentioned, Mr. Magrath, that people are not
9 necessarily brand loyal to a television set as they are to
10 cigarettes or soda pop or something like that. However, Mr.
11 Johnson just said that people are brand loyal, and that's
12 what gives the extra amount of money that someone is willing
13 to pay for a Zenith or an RCA or something like that. Is
14 this just different opinions? How would you respond to his
15 assertion that people are not brand loyal, Mr. Johnson?

16 MR. JEFF JOHNSON: The brand loyalty is declining
17 over time. It's not nearly as strong now as it was 20 years
18 ago. There is still some level of brand loyalty, and
19 probably market research would show -- I don't know this for
20 a fact, but probably market research would show that the
21 older the customer, the more likelihood there is of brand
22 loyalty, but as us older folks leave the market, then the
23 brand-loyalty impact reduces.

24 MR. THOMSEN: Okay.

25 MR. MAGRATH: We're in agreement that, besides

1 Sony, there is no real premium for any of these brands.

2 MR. THOMSEN: Okay. Mr. Johnson, I have one more
3 question for you, actually. You noted about badging in the
4 industry. How large is that in the industry? Are we
5 talking 1 percent, .1 percent, 10 percent?

6 MR. JEFF JOHNSON: I don't have a specific number.
7 I would say, in the U.S. market right now, it's not terribly
8 significant. I'm going to throw a number out, but I don't
9 have data behind this. It's probably maybe on the order of
10 10 percent. I think, in Europe, it's much stronger, so
11 there is a market pressure to go that way. Again, it's a
12 way of trying to reduce costs, to let those companies that
13 can produce a particular model more cost effectively produce
14 it regardless of the brand name that goes on it.

15 MR. HOPSON: One thing about that. I think, from
16 the experience I've had with other factories that I've seen
17 production lines and what they build, I think it's larger
18 than that. I don't have a percentage either, but that might
19 be an interesting question to find out because I've been in
20 factories that build products for their competitor, quite a
21 few factories that are in this, so I think it would be an
22 interesting question.

23 MR. THOMSEN: Well, if you have any information on
24 that, or you can find any, please do submit it in your post-
25 conference brief.

1 MR. TROY JOHNSON: Mr. Thomsen, on your previous
2 question, I think, when it comes down to the brand names
3 that you're talking about and why somebody would buy what
4 they call a brand name or a higher priced one over one of
5 the others, probably looks more into the primary television
6 that they are buying. Years ago, you rarely had a
7 television in every room.

8 These days, because television sets are getting so
9 much cheaper, you have a lot of consumers that go down to
10 the stores, and they purchase televisions for their second
11 bedroom, their third bedroom, their bathrooms, their laundry
12 room, you know, for that matter. But they are going to buy
13 the more cost-effective ones. That's not going to be the
14 one that they use all of the time.

15 MR. THOMSEN: Okay. That's an important
16 distinction. Thank you for making that.

17 Mr. Hopson, you had noted that, in your sales to
18 other OEMs, that they just package them up and sell them.
19 Do they make any changes to the television sets that you
20 make before they send them out?

21 MR. HOPSON: No. Sometimes we send them direct to
22 their customer from our warehouse. In some cases, we have
23 warehouse agreements that we keep the product until they
24 sell it, and then they will ship direct. Sometimes we ship
25 directly to their customer.

1 MR. THOMSEN: Okay. You had mentioned before that
2 this is a market that we do necessarily see price erosion
3 occurring, and we have seen it for quite some time as
4 technology increases, and we get better products or larger
5 products in the marketplace. Do we have any data, or do you
6 have any data, that you could put on the record showing what
7 price erosion had been prior to the POI that we could get a
8 baseline for, say, a 27-inch television, how much that has
9 been declining over the past 10, 15 years before we saw the
10 surge in Chinese and Malaysian televisions?

11 MR. HOPSON: I don't personally have it. I've
12 heard what it is, but I don't have that, but we could submit
13 that. That's not hard to find.

14 MR. THOMSEN: Okay. Please do so. That would be
15 very helpful.

16 And, Mr. Magrath, you had noted that there are
17 imports from other nonsubject countries. If you could tell
18 me, just in general, what's been happening with the prices
19 of these imports from Japan, Thailand, Mexico? Most
20 importantly, actually, I'm looking for what's been happening
21 with prices from Mexico from when they started up. Do you
22 have that data, or have you looked into that at all?

23 MR. MAGRATH: Mr. Thomsen, I'm sorry. Besides
24 looking at the average unit values, we don't have prices,
25 actual prices, from these sources.

1 MR. THOMSEN: Well, we will be sure to look into
2 that, then.

3 MR. MAGRATH: Excuse me.

4 MS. BECK: However, the Mexican prices you'll see
5 are higher.

6 MR. THOMSEN: They are higher than the Chinese and
7 Malaysian prices? Okay. I think that's all the questions I
8 have.

9 MR. CARPENTER: Mr. Kitzmiller?

10 MR. KITZMILLER: Mr. Hopson, other than the
11 brands, are there differences between the production process
12 at Five Rivers and that at any of the other U.S. color TV
13 producers?

14 MR. HOPSON: No. When we visited other factories,
15 it's a pretty standard kind of process.

16 MR. KITZMILLER: In your post-hearing brief, could
17 you please address the value added at your factory, value
18 added versus source of the material?

19 Mr. Johnson, please. One of the largest CPT glass
20 producers is going to be shutting down. What is the U.S.
21 tube industry going to do for a source of glass?

22 MR. JEFF JOHNSON: Well, that's obviously a very
23 good question. There are two other glass manufacturers in
24 North America, one of them completely captive to one of the
25 set manufacturers, but that set manufacturer did not buy all

1 its glass from its internal company. I'm just going to
2 guess because I don't know, but I suspect they will try to
3 buy a higher percentage of their glass from their internal
4 supplier and thereby not need to buy so much from outside.
5 The other U.S.-based manufacturer will obviously gain
6 business.

7 Glass is a very complex industry. It sounds
8 simple, but it's not. There are fewer glass suppliers. The
9 measuring unit of volume in glass is not really units of
10 televisions; it's weight. So as the average size of the
11 television set goes up, the capacity in units of the glass
12 manufacturer goes down. Even though they are making pounds
13 of glass, they are making fewer units now because they are
14 bigger.

15 But the U.S. market, in terms of the demand for
16 glass, because of the increased imports of sets and also
17 increased imports of tubes, which is, of course, not part of
18 this case, has reduced the demand for locally supplied
19 glass, and that's why Corning-Asahi has been forced to
20 close.

21 So I think, with the combination of the decline in
22 the market and potentially underused capacity with the other
23 local suppliers, hopefully, there won't be too much of a
24 shortage. If there is, I hate to say this, but there are
25 Chinese glass makers also that could supply.

1 MR. KITZMILLER: I have no further questions.

2 Thank you.

3 MR. CARPENTER: Mr. Baker? Mr. Deyman?

4 MR. DEYMAN: George Deyman, Office of
5 Investigations. My first question is for Mr. Troy Johnson.
6 You mentioned that Sharp moved its facility to other
7 countries. Could you provide, in the post-conference brief,
8 a press release or other documentation from Sharp indicating
9 the reasons why it may have moved to other countries, either
10 you or Mr. Hartquist or someone on the panel?

11 MR. JEFF JOHNSON: We'll get one.

12 MR. DEYMAN: We will follow up with Sharp also to
13 get, you know, the word straight from them, but if you have
14 anything, that would be helpful.

15 MR. HARTQUIST: We'll be happy to submit that,
16 yes, Mr. Deyman.

17 MR. DEYMAN: And I have a question for Mr. Jeff
18 Johnson. You held up an ad earlier. Could you photocopy
19 that and put it in the post-conference briefs, just so we
20 would know what you were referring to?

21 Mr. Hopson, the sets that you manufacture; do they
22 have "product of USA" on them or "assembled in USA"? What
23 marking is on the sets?

24 MR. HOPSON: Usually, on the bar codes and on the
25 serial numbers on the back it will say "manufactured in

1 Greenville, Tennessee," I think normally is where it's at,
2 so the bar code on the end of the box will say that. And on
3 occasion, some customers have "made in the USA," I think, on
4 the box, but I'm not sure if all of them do.

5 MR. DEYMAN: Are the tubes that you obtain for the
6 sets made in the United States? You don't have to answer
7 that here in public if you don't want to, but if you can.

8 MR. HOPSON: I guess we would need to submit that.

9 MR. DEYMAN: There are those perhaps among the
10 Respondents that might contend that one or more of the
11 domestic firms producing TVs are not producers in the full
12 sense of the word, so what I would like would be -- as you
13 know, Mr. Hartquist, in deciding whether a firm qualifies as
14 a domestic producer, the Commission generally has analyzed
15 the overall nature of a firm's production-related activities
16 in the United States, and it considers six factors.

17 You know the six factors, but I will go over them
18 here because I would like you to comment on them in your
19 post-conference brief, and those are the source and extent
20 of the firm's capital investment, the technical expertise
21 involved in U.S. production activities, the value added to
22 the product in the United States, the employment levels, the
23 quantity and type of parts sourced in the United States, and
24 any other costs and activities in the United States directly
25 leading to the production of the like product.

1 MR. HARTQUIST: Just to clarify, are you asking
2 for our views as to all of the domestic producers meeting
3 those criteria?

4 MR. DEYMAN: Well, I'm asking for your views for
5 Five Rivers, certainly. As far as the others, I don't know
6 if you can answer from them, but it would be helpful to have
7 your opinion on the operations of the other producers, to
8 the extent that you can.

9 MR. HARTQUIST: We'll be pleased to.

10 MR. LASOFF: Mr. Deyman, we'll also address that
11 from a legal perspective as well. In the last investigation
12 of color television receivers, in 1983, from Korea and
13 Taiwan, this issue was raised as well with respect to
14 certain, at the time called, transplant operations owned by
15 foreign producers, and the issue was raised, and the
16 Commission at that time did conclude that all 17 facilities
17 were, in fact, domestic producers at that time. So there is
18 a legal aspect to this as well, which we will also address
19 in that brief.

20 MR. DEYMAN: Commerce has issued the scope of the
21 investigation, and the wording tracks the language in the
22 petition, which covers both complete and incomplete
23 receivers from China and Malaysia. My understanding is -- I
24 haven't seen the data, but I believe that most or nearly
25 all, if not all, of the receivers coming in from those two

1 countries are complete, but incomplete is in the scope. Is
2 it your contention that the domestic industry in the United
3 States consists of the industry producing the complete
4 receiver?

5 MR. HARTQUIST: Yes. I should comment. We
6 haven't seen the scope language yet. We were advised that
7 the case has been initiated by Commerce, but we have not
8 seen the language, so we don't know exactly what they have
9 said on this score.

10 MR. DEYMAN: All right. I have no further
11 questions. Thank you.

12 MR. CARPENTER: I would like to follow up on a
13 couple of questions that Mr. Deyman asked also.

14 First of all, Mr. Hopson, in your testimony, I
15 believe you said that Five Rivers purchases picture tubes
16 and printed circuit boards, and in the definition in the
17 petition -- I don't have it with me right now, but I believe
18 it says that an incomplete receiver consists of a picture
19 tube and a printed circuit board or substrate, and I'm just
20 wondering if your purchases of the picture tube and the
21 printed circuit board constitute a purchase of an incomplete
22 receiver.

23 MR. HOPSON: Well, in some cases -- I think I
24 said, in some cases, we purchase all of the parts to
25 assemble from a raw PC board. In some cases, we purchase,

1 for instance, an assembly which would be the chassis, the
2 electronics assembly. So we would purchase it from a
3 source, maybe Mexico, maybe China, maybe somewhere like
4 that, Korea, or it could be even the United States, and
5 we've also sold those to other companies in the United
6 States such as Sharp, but then we would source tubes from
7 other sources. It's not purchasing from one group.

8 MR. CARPENTER: Okay. And I know we asked in the
9 producer and the importer questionnaire for U.S. producers
10 to provide the quantity and value of their purchases and
11 direct imports of both complete and incomplete receivers, so
12 we should have good data on that. But I just wanted to
13 throw out for the attorneys here, to ask a question for you
14 to respond to in your brief, is there a possible related-
15 party issue here, and once you've had a chance to see all of
16 the data from the various producers, if you would comment on
17 whether you think the appropriate circumstances exist to
18 exclude any particular producer from the domestic industry?

19 MS. STALEY: We'll address that in the brief, as
20 well as a discussion of Five Rivers' purchasing operations
21 and what the nature of their purchases are.

22 MR. CARPENTER: Okay. Thank you very much.

23 Finally, I just wanted to refine a question a
24 little bit that, I think, Mr. Kitzmiller and Mr. Deyman both
25 asked about value added. A lot of times, what we do in

1 these cases is we select a specific product or a specific
2 model and ask for unit-cost data for the most recent fiscal
3 year.

4 So what I was going to suggest, in the case of
5 Five Rivers, if you could look at the seven pricing items
6 that we have in the questionnaire and pick one of those,
7 maybe Product 1, if that happens to be a large-volume,
8 representative product for you. Give us, for your last
9 fiscal year, on a unit-cost basis, if you could break down
10 the costs of the raw materials that you purchased from
11 domestic producers or domestic sources, the costs of the raw
12 materials you purchased from foreign sources, and then also
13 the additional value that you added to the product in terms
14 of direct labor, energy, depreciation, and factory overhead;
15 if you could break that down so that all of the numbers add
16 up to a total unit cost. If you could do that in your
17 brief, I would appreciate it.

18 MR. CARPENTER: That's all I had. I just wanted
19 also to comment, as an administrative matter, we'll accept
20 the three charts that Petitioners provided as Petitioners'
21 Collective Exhibit 1, and that will be included in the
22 transcript.

23 (The documents referred to
24 were marked for identification
25 as Petitioners' Collective

1 Exhibit 1.)

2 MR. CARPENTER: Are there any further questions
3 from staff?

4 (No response.)

5 MR. CARPENTER: Okay.

6 MR. HARTQUIST: Mr. Carpenter, may I ask that Mr.
7 Hopson have an opportunity to elaborate a little bit on one
8 issue that was raised, essentially, I think, Mr. deWinter's
9 questions about how he knows whether he has lost sales to
10 the subject merchandise?

11 MR. CARPENTER: Sure.

12 MR. HOPSON: There are some products that we built
13 in our factories in 1998 and 1999 that are currently the
14 same substantial design that are being built currently in
15 China that came from our factory. We were building that
16 product. So now that product is being built in China in a
17 factory by a third party with a badge on it, supplied to one
18 of our customers.

19 MR. HARTQUIST: We'll speak further to this in the
20 brief as well.

21 MR. CARPENTER: Very good.

22 MR. deWINTER: I have a final question for Mr.
23 Hopson. Could you walk me through the contract process that
24 you have with your purchasers? How does this work? What
25 kind of contracts do you enter into, meaning do the

1 negotiations happen at the same time every year?

2 MR. HOPSON: They are normally yearly. They
3 usually happen with new model introductions. Some
4 customers, they happen at year end, January 1. Some
5 customers, when they introduce new models, that will be the
6 point in time that you would start that. But in the past,
7 it was normally a yearly agreement.

8 Our initial agreement, when we first bought our
9 factory, we did have a longer term contract, but the pricing
10 wasn't set for three years. It had to decline over that
11 period of time. But since that initial agreement, every
12 customer we have, it's usually a yearly agreement.

13 MR. deWINTER: And in that agreement, you set
14 number of units, a whole range of units, and does the price
15 change with the number of units purchased, meaning volume
16 discounts over time?

17 MR. HOPSON: Some customers will have what we call
18 "step pricing," once you hit a certain level, that helps
19 cover our basic, fixed-overhead costs. Then we'll drop the
20 price. Then they go to the next level so they can continue
21 if the volume proves out. Most of time you have screen size
22 actually by model, so you know the feature level, and there
23 will be a price for each one with a volume, estimated
24 volume, for the year in that.

25 If you would like, we could give you more of that

1 detail in the brief. It's confidential.

2 MR. deWINTER: That would be great. Thank you.
3 If you have maybe a model contract or something like that.

4 MR. HOPSON: Sure.

5 MR. deWINTER: Thank you.

6 MR. CARPENTER: Thank you very much for your
7 testimony and your responses to the staff questions. We'll
8 take a 10-minute recess until about eleven-thirty-two on the
9 clock in the back, and, at that time, if the Respondents
10 would come up to the table and assemble, we would appreciate
11 it. Thank you.

12 (Whereupon, at 11:22 a.m., a brief recess was
13 taken.)

14 MR. CARPENTER: If everyone could take a seat, I
15 would appreciate it. Mr. Connelly, are you going to start
16 us off?

17 MR. CONNELLY: I will. Good morning. I'm Warren
18 Connelly, with the Akin, Gump law firm, here representing
19 Funai. We appreciate the opportunity to appear before you
20 this morning to explain why imports of subject merchandise
21 from Malaysia and China couldn't possibly have caused
22 material injury to the domestic industry.

23 Our order today will be as follows: I'll have
24 some brief remarks. John Reilly and Ken Button will follow
25 me and present their conclusions concerning some of the

1 relevant conditions of competition in the domestic CTV
2 market. They will be followed by Koshiro Hashimoto, who is
3 Funai's senior vice president of marketing. Next will come
4 Kevin O'Connor, vice president, divisional merchandise
5 manager of Wal-Mart; and his counsel, Phil Gallas. They
6 will be followed by Gary Bennett, vice president, sales and
7 marketing, of Apex Digital; and Hamilton Loeb will present
8 concluding remarks on behalf of the Chinese Respondents.

9 Let me start with the like-product issue. Both
10 Funai and the Chinese Respondents do not at this time intend
11 to contest the definition that the Petitioners have offered.
12 However, we will reserve our right to comment on this if
13 this case should return to the Commission for final-phase
14 investigation.

15 However, for purposes of the preliminary phase, we
16 are very confident that the record will show no material
17 injury or threat to the domestic industry, as the
18 Petitioners have chosen to define it. Our reason for this
19 conclusion, as Mr. Hashimoto is going to explain, is that
20 Funai competes in a very limited segment of the market,
21 where it encounters competition from, at most, a single
22 domestic producer, and that producer is Orion. I believe
23 the Chinese producers have had a similar experience.

24 The sole petitioning company, Five Rivers, is, to
25 the best of our knowledge, primarily in the business of

1 producing projection TVs at this time. Funai does not
2 purchase projection TVs.

3 On the issue of cumulation, we are going to wait
4 to see the questionnaire data before we decide on this
5 issue, and we'll take a position on that issue in our post-
6 hearing brief.

7 The conditions of competition in this market are
8 an extremely important background against which the
9 Commission is going to assess the injury-and-causation
10 issues. John Reilly and Ken Button, as I mentioned, are
11 going to discuss them in detail, but suffice it to say that
12 we think that conditions in this market point overwhelmingly
13 to factors other than subject imports as the cause of any
14 injury that the domestic industry faces.

15 We do not deny that overall import volumes of
16 subject merchandise are increasing, but as to Funai's
17 volumes, we will be providing a confidential explanation of
18 the special circumstances that have led to those increases.
19 These circumstances are such that they refute any inference
20 of injury that might be drawn from looking at the absolute
21 volumes or the volume trends in isolation.

22 In fact, as we analyzed the import volumes, we
23 were struck, as I'm sure you were, by the fact that
24 nonsubject imports, especially those from Mexico, vastly
25 exceed the imports from Malaysia and China. We will have a

1 great deal to say in our post-conference brief about the
2 relevance of nonsubject imports.

3 We will also have a lot to say about the
4 significance of the pricing data. Unfortunately, we don't
5 believe that the questionnaires have posed all of the
6 relevant questions concerning pricing, but when all of the
7 relevant data has been compiled, including data that we will
8 submit, we are confident that there will not be any
9 significant margins of underselling when comparable
10 transactions, from both Malaysian and domestic producers,
11 are analyzed.

12 As to the Petitioners' confidential lost-sale and
13 lost-revenue allegations, they are weak. They are
14 unsupported. They are inherently incredible. Let me give
15 you one example. One-half of the allegations that were made
16 against Malaysian producers pertain to models that Funai
17 does not make. The remainder of the allegations are so
18 vague and unsupported, that they are not really worthy of
19 further consideration. Petitioners have failed to provide
20 sufficient information for the staff to even make a
21 meaningful inquiry. In fact, they haven't even identified
22 the customer that each Malaysian producer supposedly took
23 away from the domestic industry.

24 On the issue of threat, Funai has long had a very
25 carefully considered strategy in the U.S. market that we

1 think will provide ample assurance to the Commission that it
2 will not cause future injury to the domestic industry.
3 Funai is a niche marketer, and its niche is not one that
4 domestic producers, with one exception, occupy.

5 With that brief introduction, I will turn it over
6 to John Reilly.

7 MR. REILLY: Thank you. Good morning. For the
8 record, I'm John Reilly of Nathan Associates, appearing on
9 behalf of the Chinese Chamber and the Chinese color TV
10 producers.

11 In my statement today, I'll address three topics:
12 the economics of color TV pricing, market segmentation and
13 competition, and some significant recent market trends. My
14 analysis of these topics will demonstrate that subject
15 imports have neither caused nor threatened to cause material
16 injury to the domestic industry.

17 Declining prices are the norm for the U.S. color
18 TV market. As Exhibit 1 of my handout shows, the consumer
19 price index for televisions has declined in every year of
20 the past decade. This steady price declines reflects both
21 advancing product and manufacturing technology and a market
22 imperative to reduce costs and price. Large TVs are
23 expensive, luxury goods. Moreover, the market for color TVs
24 is saturated with household penetration well in excess of 90
25 percent. Consumers buy new sets either to replace their

1 existing sets or to add to the number of sets in the
2 household. Accordingly, they can easily defer the purchase
3 of a new set during periods of economic difficulty or if
4 they believe that the price is not right.

5 In short, demand for the large TVs is highly
6 elastic to price. Since household saturation is complete,
7 producers have no choice but to employ regular price
8 reductions to bring consumers into the market and thereby
9 maintain demand.

10 Now, the Commission staff evidently agrees with
11 this assessment. In the 2000 color picture tube sunset
12 investigation, the staff estimated picture tube demand
13 elasticity in a range that implies end-product demand
14 elasticity as high as minus 2.7, and as a matter of
15 information, the demand elasticities for color picture tubes
16 selected by the staff were minus .5 to minus .8, and the
17 color picture tubes, according to the information in the
18 report, accounted for 30 percent to 50 percent of final
19 product cost.

20 Color TVs are differentiated, branded products,
21 and pricing clearly reflects this differentiation. Market
22 analysts generally segment the retail market into three
23 tiers. In the top tier are the premium brands, dominated by
24 Sony, which commands an industry-leading, 23 percent unit
25 market share for all 27-inch and larger color TVs and, of

1 course, an even higher value share. In the middle are
2 brands, such as Samsung and Philips, and the bottom tier
3 consists of opening-price-point or promotional brands, such
4 as Apex, Sylvania, and Orion and Orion Sansui brand.

5 The vast majority of the subject TVs from China
6 and Malaysia are round-tube, analog, opening-price-point
7 models. They have two retailing functions. First, they
8 provide retailers with a quality product at a price point
9 that appeals to consumers who would likely not consider
10 buying a more expensive TV.

11 Second, they provide retailers with a vehicle to
12 run periodic promotions designed to capture consumers who
13 may not have been considering the imminent purchase of a
14 color TV and those who would not consider a purchase except
15 at a promotional price. A significant share of total
16 opening-price-point sales occur during promotion periods.
17 These promotions have the considerable added benefit of
18 generating shopper traffic and impulse purchases of other
19 items.

20 Mid- and top-tier products cannot fill this
21 promotion niche because they cannot reasonably be priced to
22 appeal to the targeted shoppers. Market segmentation and
23 the specialized role of the opening-price-point models
24 significantly attenuate any potential price competition
25 between the subject imports and the products of the domestic

1 suppliers.

2 In addition, the logistics of promotions require
3 that the major volume retailers source their promotional
4 brands from manufacturers having the capacity to supply very
5 large volumes in a short period of time. Promotions would
6 not be a viable strategy if the domestic retailers had to
7 stock large inventories well in advance of the promotion
8 periods.

9 Were imports from China and Malaysia impaired for
10 any reasons, the retailers would have to seek other foreign
11 suppliers to meet their promotional needs. There is no
12 domestic producer who is capable of meeting these surge
13 requirements.

14 To test the effect of subject imports on the
15 domestic industry, in view of these market characteristics,
16 Nathan Associates conducted a simulation using the
17 Commission's nonlinear compass model. The simulation inputs
18 are in Exhibit 2 of the handout, and results are in Exhibit
19 4. And I would like to go over the inputs a bit to
20 demonstrate that they are quite reasonable.

21 The assumed duties are equal to the high dumping
22 margins in the petition. The demand elasticities employed
23 are minus 1.5 to 2. The elasticities of substitution is a
24 relatively high range of 5 to 7. Now, given the market
25 characteristics I've just described, this range overstates

1 the degree to which any domestic product would be
2 substituted for the opening-price-point subject imports.
3 The domestic supply elasticity employed is a relatively low
4 2 to 4, while the subject-to-nonsubject import supply
5 elasticity employed is a relatively high 10 to 20. The
6 assumed domestic supply elasticity is consistent with the
7 Commission's conclusions about the elasticity of domestic
8 picture tube supply. Any increase in domestic TV
9 production, of course, would require an increase in the
10 supply of picture tubes.

11 Nathan Associates estimated the volume and value
12 of U.S. producers' shipments and imports of the subject
13 products for the year ending -- that's for 12 months --
14 ending March 31, 2003, and these estimates are from public
15 CEA data -- that's Consumer Electronics Association -- and
16 census import data. We estimated the U.S. producers' market
17 shares as 20.3 percent on a volume basis and 22.7 percent on
18 a value basis. The combined subject imports' market shares
19 are 16.5 percent on a volume basis and 9.2 percent on a
20 value basis. This share differential reflects the opening-
21 price-point positioning of the subject imports and a higher
22 average value of U.S. producers' shipments in nonsubject
23 imports, especially from Mexico. The big gap between the
24 U.S. producers' share plus the imports' share in the total
25 markets is essentially Mexico.

1 The eight scenarios produced by the zero-growth
2 component of the model indicate that the application of the
3 assumed antidumping duties would cause U.S. producers'
4 average prices to increase by 0.7 percent to 1.3 percent and
5 U.S. producers' volume to increase by 1.2 percent to 3.8
6 percent. The 3.8 percent U.S. volume gain amounts to
7 135,000 units in a market of around 17 million units.

8 The duties would cause the consumption of the
9 subject TVs to decline by 8 percent or more, from an
10 estimated 17.4 million units to about 15.8 to 16 million
11 units.

12 These simulation results show clearly both that
13 subject imports have had only a minimal effect, at most, on
14 U.S. producers' volume and prices and that applying the
15 antidumping duties would have significant adverse effects on
16 retailers and consumers, and these effects, the domestic
17 suppliers could not ameliorate.

18 The most important, recent trend in the domestic
19 color TV market is the explosive growth of digital sales, as
20 shown in Exhibit 4 of my handout. Sales of digital TVs grew
21 from 625,000 units in 2000 to 2.5 million units in 2002.
22 During this year, CEA projects that sales will reach 4
23 million units. By 2005, CEA projects sales of 8 million
24 units.

25 Since the color TV market overall is stagnant,

1 this explosive digital growth comes at the expense of large-
2 screen, analog, direct-view and projection TVs. There is no
3 doubt that falling digital prices, reflecting advancing
4 technology and movement down the production learning curve,
5 are putting pressure on large, analog TV prices.

6 Although digital TVs are subject to investigation,
7 there have been no significant imports of digital TVs from
8 China and Malaysia to the USA. Digital sales are presently
9 dominated by wide-screen, projection models. Because of
10 their considerable bulkiness, it is not efficient to ship
11 finished projection models over long distances. For this
12 reason, China and Malaysia could pose no threat of injury in
13 this rapidly growing segment.

14 In addition, my preceding analysis shows that the
15 current mix of subject imports from China and Malaysia pose
16 no threat of injury to the domestic industry because they do
17 not compete to any significant degree with the domestic
18 product. Rather, the subject imports have acted to expand
19 U.S. TV consumption and stabilize the market during a period
20 of sluggish economic performance. Thank you for your
21 attention.

22 MR. BUTTON: Good morning. I'm Kenneth Button,
23 senior vice president of Economic Consulting Services, LLC,
24 appearing on behalf of Funai Corporation. I have provided
25 for the Commission's convenience certain exhibits, to which

1 I'll refer during my comments.

2 An important factor shaping competition in the
3 U.S. CTV market is the fact that all of the U.S. CTV
4 producers, with the exception of the contract assembler,
5 Five Rivers, also are producers of CTVs in foreign
6 countries, including both subject and nonsubject countries.
7 Sony, Sanyo, and Toshiba make CTVs in Mexico, primarily to
8 supply the U.S. market. These producers and others also
9 have production operations in the Far East and elsewhere.
10 Orion, for example, has a plant in Thailand, which has been
11 a source of its supply of CTVs for the OPP tier of the U.S.
12 market. Orion products sell under the Orion, Sansui, and
13 Brooksonic brand names.

14 Nonsubject imports, in fact, dominate the U.S.
15 market. Mexico is by far the most important supplier. It
16 exported about 11 million of the estimated 17 million CTV
17 units purchased in the United States in 2002. Based on
18 public data, Mexico alone has an about 63 percent share of
19 the U.S. apparent consumption. As shown in my Exhibit
20 Number 1, the total volume of imports from Mexico rose over
21 the 2000 to 2002 period.

22 Among the high-definition CTV imports, Mexico is
23 enjoying substantial growth and is the largest supplier.
24 However, it is among the conventional, direct-view CTVs that
25 Mexican dominance of the U.S. market as a whole is so clear.

1 Exhibit Number 2 shows import HTS categories covering
2 analog, direct-view, subject TVs in the 21-inch through 30-
3 inch range.

4 The import volume from Mexico increased from 2000
5 to 2001 and declined in 2002. The increase in subject
6 imports from Malaysia and China appear largely to have been
7 at the expense of imports from Mexico. Mexico, however,
8 still appears to supply a major portion of the U.S. market
9 for this size range.

10 The next exhibit, Exhibit Number 3, tells a
11 different story, as it reveals that imports from Mexico of
12 analog, direct-view CTVs greater than 30 inches are rapidly
13 growing. This is a market segment in which there has been
14 relatively little participation by subject imports. In this
15 segment, it appears clear that Mexico is taking market share
16 away from domestic producers.

17 The second-largest, nonsubject supplier is
18 Thailand. It is Funai's belief that a substantial volume of
19 the imports from Thailand come from Orion's plant there and
20 are used to supply a portion of Orion sales to the OPP tier
21 at Wal-Mart and other retailers. The data suggest that the
22 Commission should be careful to analyze the role of the
23 nonsubject imports in the market and, in particular, the
24 degree to which they have had negative price and volume
25 effects on the domestic industry. Thank you. That

1 completes my testimony.

2 MR. HASHIMOTO: Good morning. My name is Koshiro
3 Hashimoto and I am the Senior Director of the Product
4 Department and Marketing of Funai Corporation, Inc. which is
5 a U.S. marketing subsidiary of Funai Electric Co., Ltd.
6 Funai Electric is a Japanese company that also owns Funai
7 Electric (Malaysia). Malaysia is the only country in which
8 Funai now produces color TV receivers and combination units.

9 Funai Electric is a multi-billion dollar
10 communications and consumer electronics company that sells
11 its products worldwide. We first established our reputation
12 in the USA with audio equipment and VCRs, and later, DVDs.

13 Funai began marketing CTVs in the United States in
14 the mid 1980s. We started with 13 inch and 19 inch models,
15 and then added combination units in these two screen sizes.
16 Currently we continue to offer models in these sizes, and we
17 also offer nine inch, 20 inch, 23 inches, 27 inches and 32
18 inch screen sizes in both direct view and combination units
19 including units that contain both VCR and DVD players. Our
20 sets carry either the Symphonic, Sylvania, Emerson, or Funai
21 brand, depending on the distribution channel.

22 We do not make or sell projection TVs, high
23 definition TVs, conventional 16:9 screen aspect ratio TVs,
24 incomplete or unassembled CTVs or any other merchandise
25 described in the petition. We also do not make any screen

1 sizes larger than 32 inches. In other words we produce a
2 limited lineup of models compared to the vast array of
3 viewing choices that are now available in the market.

4 When Funai first considered whether to enter the
5 U.S. market it recognized that the market was a mature one
6 so we tried to identify a market niche in which we would be
7 able to successfully compete. We knew that the retail
8 consumers here are very familiar with the famous CTV brands
9 like Sony, Panasonic, RCA, Zenith and Toshiba, to name just
10 a few. We believed that the quality and reliability of our
11 products were very high, however, we understand that our
12 company's Symphonic and Funai brands, which is all we had
13 until 1997, did not have the widespread recognition and
14 reputation of those that had been successfully advertised
15 and marketed here for many years.

16 Nevertheless, we concluded that an opportunity
17 existed in a potentially highly profitable market niche that
18 the well-known brand name companies had chosen not to
19 comment in or had withdraw from. We studied the mass
20 merchandiser segment of the market. They account for the
21 vast majority of the consumer electronic sales including, at
22 that time, companies like Rose's, Ames, Bradley's, and
23 Hills. We were very familiar with the demands and
24 characteristics of this segment because Funai had long sold
25 its other electronic products to it. Initially, we sold to

1 companies like Service Merchandise, Best Products, and
2 Rose's.

3 the direct view, or traditional, CTV market at the
4 mass merchandiser stores consists of distinct segments or
5 tiers, and all of the major retailers carry models that
6 appeal to customers in each of these tiers at each screen
7 size. Some refer to these tiers as "good", "better", and
8 "best". Mass merchandisers all consider our sets to fall
9 within the "good" category.

10 We examined the model lineups that were displayed
11 on the shelves of major consumer electronics retailers. We
12 observed that in what we call the "Opening Price Point" or
13 "OPP" segment, only a relative handful of lesser-known
14 companies were marketing their sets. These companies
15 included Daewoo, Orion (which also uses the Sansui brand),
16 and Goldstar. These companies did not have nearly the brand
17 name recognition or reputation of the major CTV makers, so
18 we thought that we could compete on a much more equal
19 footing with them, starting out with our Symphonic brand.

20 The OPP segment is the lowest price segment in the
21 market. Models that are sold in this segment have very
22 basic features. In the Commission's questionnaires, the
23 models that fall within the OPP segment are represented by
24 only two of the seven listed products, which are Products 1
25 and 4. Product 1 is a 27 inch analog set with a very basic

1 stereo sound system, but not the more costly MTS/SAP
2 feature. The overwhelming majority of the 27 inches and
3 above sets that Funai sells in the USA are Product 1 type
4 sets.

5 The reason that we can successfully compete in the
6 U.S. market at the OPP level is that we offer a quality
7 product, reliable delivery, and adequate capacity. Despite
8 what you heard from the petitioners earlier today, mass
9 merchandisers and other CTV buyers do not purchase solely on
10 the basis of price. They evaluate vendors using much more
11 sophisticated methods and sometimes intangible criteria such
12 as the value/price relationship of a particular product.
13 This method of analysis, of course, extends to all of the
14 products they carry. The larger retailers and electronics
15 chains have extraordinary market power and leverage over all
16 vendors, and Funai either meets their standards or loses the
17 sale.

18 The brand attributes and strategic objectives of
19 almost all domestic producers result in their not
20 participating in the OPP segment. For example, we have
21 never encountered Five Rivers at any of the accounts that we
22 now sell to or have tried to sell to. Moreover for OPP
23 sales, whenever encounter competition from Sony, Panasonic,
24 Toshiba, or Sanyo. These companies all sell models at price
25 points above the OPP models and in some cases far above our

1 prices.

2 Orion is the only domestic producer that competes
3 in the OPP segment to the best of our knowledge. Our
4 competition for OPP sales comes mainly from companies like
5 Apex, Orion, Daewoo, and Hisense. In 2002 and 2003 we
6 believe that Orion is offering substantial volumes of 27 inch
7 sets made in Thailand to U.S. retailers in competition with
8 Funai. With respect to combination units, we do not face
9 competition at the OPP level from any domestic producers.

10 Our two largest CTV customers by far are Wal-Mart
11 and Sears. You will hear shortly from Wal-Mart's witness,
12 and Sears will be submitting a written statement that
13 provides its perspective on the market and the competition
14 in each segment.

15 As you consider whether our sales to these two
16 companies had any adverse effect on the domestic industry,
17 we urge you to recognize some very important aspects of
18 those sales, some of which we will need to explain in more
19 detail in our brief.

20 First, these companies and others like them
21 purchase CTVs in two basic ways. We refer to them as
22 promotional sales and everyday sales. Promotional sales are
23 what you see advertised in the Sunday newspaper supplements
24 or as one-time special offers, or once-a-year major sales
25 events. Retailers negotiate with vendors to supply them

1 with promotional sets that they can advertise at low prices
2 in order to draw customers into their stores where they will
3 hopefully purchase other products.

4 Wal-Mart in particular is famous for its annual
5 day after Thanksgiving sale. On Friday, November 29, 2002,
6 Wal-Mart sold over \$1.4 billion in merchandise. Included
7 within that merchandise was a promotional 27 inch CTV unit
8 that Funai supplied. We will provide more details in our
9 brief concerning that sale and the other promotional sales
10 that Funai has made.

11 One of the most important aspects of the
12 promotional sales is that a vendor has to be able to supply
13 a very large quantity in a very short period of time. That
14 will inevitably reduce the number of potential vendors,
15 since they may already have committed their production lines
16 to other customers.

17 The prices charged in promotional sales cannot
18 fairly be compared to the prices that vendors charge in
19 everyday sales. Since promotional sales are one-time sales
20 with an extremely high volume, they justify us in offering a
21 discount from the everyday price. Unfortunately, the
22 pricing data that you are collecting do not segregate prices
23 charged in promotional sales from prices charged in everyday
24 sales.

25 So it is essential that conclusions not be drawn

1 concerning the significance of any price differences between
2 Funai's sets and domestic Product 1 sets. This is because
3 weighted average domestic Product 1 prices will consist of
4 both promotional and everyday prices. Funai's prices on the
5 other hand will be very heavily weighted towards promotional
6 sales.

7 A second point is that larger retailers frequently
8 carry more than one OPP model in the same screen size.

9 A third point has to do with declining price
10 trends during the period of investigation. This is not a
11 new phenomenon. Rather, it has been a constant in the U.S.
12 CTV market for decades. That is precisely why so many
13 domestic and foreign companies have established factories in
14 Mexico, including three of the six domestic producers, Sony,
15 Matsushita and Sanyo.

16 Funai has succeeded with its OPP strategy in the
17 U.S. market which we have no plan to change, because we
18 offer what our customers want. In 2002 Wal-Mart named Funai
19 as one of its "Suppliers of the Year". Sears also selected
20 Funai as one of its Vendors of the Year in 2002. These
21 awards don't go to companies that charge the lowest prices.
22 They go to companies that provide high quality, value,
23 reliability, durability, and on-time delivery, along with
24 several other important characteristics.

25 Our sets may be relatively inexpensive, but our

1 prices reflect the realities of the consumer and retailer
2 brand preferences. We necessarily occupy a niche in the
3 market where consumers are not very brand sensitive, and
4 where we do not have to take on the heavy hitters in the
5 industry like Sony and Panasonic. This is a niche that five
6 of the six domestic producers do not compete in.

7 In the circumstances I have described, Funai does
8 not see how it could possibly have had a negative effect on
9 the domestic industry.

10 That concludes my remarks. Thank you.

11 MR. GALLAS: I'm Phil Gallas of Sandler, Travis &
12 Rosenberg, counsel to Wal-Mart Stores, Inc. I'm pleased to
13 have with me today Kevin O'Connor, Vice President,
14 Divisional Merchandise Manager of Wal-Mart who will address
15 the Commission staff. Also with me today are my associate
16 Greg Menegaz and our economic consultant, Chuck Anderson of
17 Capital Trade Inc.

18 With that I will turn this over to Kevin O'Connor.

19 MR. O'CONNOR: Thank you, Phil.

20 Good morning everyone. As Phil said, my name is
21 Kevin O'Connor and I'm the Vice President, Divisional
22 Merchandise Manager at Wal-Mart.

23 On behalf of Wal-Mart I appreciate the opportunity
24 to address the Commission staff this morning regarding the
25 antidumping petition on color televisions from China and

1 Malaysia. I oversee the Wal-Mart division in charge of
2 buying and merchandising electronics and I've been with our
3 company for seven years.

4 One of my principal responsibilities is to
5 supervise Wal-Mart purchases of color televisions, both
6 domestically and from abroad. My remarks cover our TV
7 imports as well as those from our Sam's Club division.

8 I will address two points. First I will provide
9 you with some background on Wal-Mart's operation and our
10 decisionmaking process when we purchase color televisions.
11 I will also share our perspective on the structure of the
12 U.S. color television market.

13 Due to that structure we believe that there is
14 minimal competition overlap between televisions produced in
15 the United States and sets that we import or plan to import
16 from China and Malaysia.

17 Humbly, we are the largest retail sales company in
18 the United States. Including our Sam's Club operations we
19 have over 3,000 U.S. stores. Our successful business model
20 is based upon our ability to procure and distribute
21 merchandise in the most efficient way possible. This helps
22 us to contain costs and at the same time maximize value by
23 buying and selling in large volumes.

24 Whether it's televisions or tires, we normally
25 purchase in large volumes and we negotiate and purchase

1 these large lots directly from the manufacturers.

2 With respect to color televisions we are one of
3 the largest U.S. retailers. To serve our customers we carry
4 a broad range of color televisions including the sets
5 covered by this proceeding. We also purchase color
6 televisions from many suppliers. These suppliers provide us
7 with televisions that are produced in the United States,
8 China, Malaysia and other countries. In fact some U.S.
9 producers specifically offer us televisions that are
10 manufactured in their overseas facilities, not in their U.S.
11 plants.

12 We have two distinct procurement processes. One
13 for our day-to-day business and a separate process for our
14 once-a-year Thanksgiving promotion.

15 With respect to everyday business, we have
16 established suppliers that provide TVs on a regular basis.
17 While we do not formally request bids, it is common practice
18 for us to meet with our suppliers on a regular basis to
19 forecast our needs and discuss the manufacturer's ability to
20 supply us with products.

21 We also actively invite new suppliers to meet with
22 our buyers to discuss our requirements.

23 We do very little importing of the televisions
24 covered by this investigation for our everyday business. In
25 contrast, our annual one-day after Thanksgiving sales

1 accounts for the vast majority of our imports.

2 Last year this sale covered once specific 27 inch
3 television. We procure these sets through a bidding
4 process. Since this is a large order, we request bids in
5 the beginning of the year, and as you can imagine, we
6 require suppliers that can reliably deliver a large volume
7 of product in time for this sale. For this promotion we
8 also seek suppliers that can provide us several electronics
9 products, not just color televisions.

10 We do not use a formal purchasing matrix.
11 Instead, our purchase decision process considers several
12 factors. While pricing obviously is a consideration, it is
13 only one of many factors that we evaluate. Other key
14 factors that we take into consideration include the
15 availability of product in sufficient quantity, the brand
16 names sought by our customers, styling and features,
17 availability of a family of products under the same brand,
18 product quality, supplier responsiveness, delivery lead time
19 and logistics.

20 If we were making purchase decisions on price
21 alone we would not be simultaneously purchasing products
22 from Sony, Panasonic, Pioneer, and Phillips. We buy sets
23 from these manufacturers because they are considered
24 superior brands and contain features not found in the
25 subject sets we import.

1 I would also like to emphasize that due to the
2 scale of our operations it is extremely important for us to
3 deal with dependable suppliers that can meet our large
4 volume requirements. This is important for two reasons.
5 First, we strive to keep our shelves fully stocked. We want
6 the customer to be able to find what he or she wants
7 whenever they come to our stores. This requires suppliers
8 that can supply the volume necessary to maintain our in-
9 stock criteria of 98 percent or greater.

10 Second, we need suppliers that can respond to the
11 large volumes we require for special promotions. For
12 example, our purchase requirements for our annual
13 Thanksgiving blitz far exceed the capacity of the U.S.
14 producers with proven reliability to meet our volume and
15 lead time needs.

16 Given the large number of color TVs we sell and
17 the large number of suppliers we deal with, we are quite
18 surprised by this antidumping petition. We are very open
19 with meeting new suppliers and developing programs with
20 them. I've never heard of Five Rivers, and to my knowledge
21 we have never been solicited by them. We are surprised and
22 disappointed that Five Rivers would choose first to file a
23 lawsuit rather than picking up the phone or attending our
24 new supplier summit to attempt to solicit our business.

25 I would think a manufacturer would try to sell us

1 something and at least give us the chance to turn them down
2 before claiming injury and asking for import relief.

3 With respect to the structure of the U.S.
4 television market, we view the market in terms of three
5 categories or tiers -- good, better, and best. Our
6 philosophy is to carry a broad range of TVs, both in terms
7 of features and in terms of brand names. It is important
8 for the Commission to understand the importance of brand in
9 the color television market. While brand may not always be
10 associated with quality, it is a significant factor driving
11 the demand for color televisions. At Wal-Mart we categorize
12 each brand into one of these three tiers and we strive to
13 carry several brands within each tier. Similarly, we also
14 carry several sizes that have similar features within each
15 tier.

16 Based on our experience of selling millions of
17 color televisions we know that customers place a premium on
18 brands and there is virtually no direct competition between
19 the brands that we import and the brands that we purchase
20 from U.S. producers. In our view, U.S. produced sets are
21 predominantly in the better and best tiers and have more
22 features than the products that we would consider purchasing
23 from Malaysia or China.

24 We purchase U.S.-produced sets to satisfy one part
25 of our market, and we import sets to satisfy a separate part

1 of our market. Thus we do not see any competition between
2 the U.S.-manufactured color televisions and the imported
3 sets that we purchase from Malaysia or China.

4 This lack of competition also is due in
5 significant part to the fact that U.S. producers frequently
6 cannot meet our volume requirements for the particular
7 models we source from the subject countries. For example,
8 referring back to the Thanksgiving blitz promotion that I
9 mentioned earlier, the one U.S. producer that responded to
10 our proposal offered foreign-source televisions, not sets
11 produced in its U.S. plant. In addition, this U.S. producer
12 was not able to provide us with the other electronic
13 products that we requested. Therefore we have no choice but
14 to look to other sources, including China and Malaysia, to
15 meet our needs for this annual promotion.

16 In addition, other considerations such as the
17 availability of styles, sizes, features, brand recognition,
18 a family of brand-related accessories like DVD players,
19 VCRs, computer systems, limit the practical availability of
20 U.S.-produced color televisions of the type comparable to
21 the subject imports.

22 In summary, we believe that the antidumping
23 petition does not accurately describe conditions in the
24 United States market for color televisions. Given that Five
25 Rivers has never even approached us directly, we cannot see

1 any evidence of competition between their color televisions
2 and the sets we import.

3 We regularly purchase U.S.-produced color
4 televisions. With respect to our purchases, however, there
5 is no overlap between the TVs that are produced in the
6 United States and the color televisions that we import from
7 China and Malaysia.

8 Wal-Mart therefore submits that the imported
9 televisions cannot be injuring the domestic industry.

10 Thank you for this opportunity.

11 MR. BENNETT: Good morning. My name is Gary
12 Bennett, and I'm the Vice President of Sales of Apex, Inc.

13 Apex Digital is a significant importer of analog
14 televisions from Chinese producers as well as DVD players.
15 I've been in the television industry for 28 years. Prior to
16 working for Apex I spent 12 years with Hitachi Home
17 Electronics as Executive Vice President. I've also worked
18 for Mitsubishi and Sony.

19 With me is Steve Brothers, Senior Vice President
20 of Sales and Marketing who has been in the TV industry for
21 over 30 years.

22 Over the period of investigation Apex has sourced
23 analog direct view color TV products from Chang Hong, a
24 Chinese supplier. Apex has very limited sales of projection
25 TVs. Basically our sales of projection TVs likely accounted

1 for less than one percent of domestic consumption.

2 My experience in the television industry supports
3 the testimony put forth by the economists of the Chinese and
4 Malaysian producers. People in the industry acknowledge that
5 the color TV market in the United States is characterized by
6 three marked segments which are determined by three factors.
7 We have continually heard brand name, we have heard
8 features, and pricing.

9 Apex is focused on the opening price point market.
10 Given the nature of the industry it is unclear to Apex which
11 domestic producer Chinese and Malaysian imports have
12 displaced by their sales in the U.S. market. For my
13 company, Apex, its products do not generally compete with
14 the merchandise produced in the United States. Rather, Apex
15 competitors or other foreign producers within the opening
16 price point markets with, like Apex, recognized
17 approximately three year ago a major void was being left in
18 the U.S. market for opening price point analog direct view
19 color TVs.

20 You should have a chart, and I'd like to explain
21 the chart. The Japanese producers have had the U.S. market
22 for analog direct view color television to themselves for
23 close to 20 years. After nearly two decades of preeminence,
24 the Japanese began to abandon the opening price point market
25 three years ago, leaving a void in the direct view analog

1 television market.

2 Further, in 2001 Sony announced they were
3 withdrawing from Round 2 TV projections to focus on
4 production of pure flat screen televisions.

5 In the middle tier market, participants such as
6 Mitsubishi and Hitachi withdrew entirely from the direct
7 view color television market.

8 This in turn made room for producers such as
9 Samsung and Sharp who previously sold opening price point
10 markets to move up to the middle tier after significantly
11 upgrading their technology.

12 A number of companies in addition to Samsung and
13 Sharp such as Daewoo and Lucky Goldstar have also exited the
14 opening price point market. This chart is consistent with
15 the comments that Mr. Johnson made in the previous group.

16 Apex, who in 1999 had already established itself
17 as a value brand in the consumer electronics sector when it
18 began importing DVD players, was approached by its existing
19 retail customers. Those retail customers expressed an
20 interest in purchasing color televisions from Apex.

21 Given the scarcity of value-based merchandise and
22 the anticipation that availability would decline even
23 further, customers such as Circuit City, Sears, Wal-Mart, K-
24 Mart and major regional retailers across the country needed
25 a consistent and abundant supply of good quality, low-priced

1 merchandise.

2 In 2001 a vacuum occurred in the opening price
3 point market for analog direct view color TVs, and the
4 demand for those products were met by Chinese, Malaysian,
5 and Thai producers among other foreign producers. With one
6 major exception there is no U.S. production of these opening
7 price points.

8 Over the past years improvements in the efficiency
9 of production, significant changes in the technology of TV
10 products impacted pricing across all markets of the color TV
11 industry.

12 An example is Sony's focus on pure flat TVs
13 introduced in 1999. Pure flat screens were a new technology
14 for which Sony initially charged a premium. Because Sony
15 had a head start in producing this new technology and
16 because of their strong positioning in the market the
17 company was able to lower prices on their pure flat TV by 20
18 percent in the year 2000 and approximately 20 percent each
19 year after.

20 Sony has the unique position in the marketplace of
21 being number one in unit sales across all TV sizes under
22 investigation as well as being number one in terms of value
23 of sales. Simply stated, Sony sells the greatest number and
24 is the most expensive. It is very unusual that the premium
25 brand is also the price leader in the industry.

1 When Sony at the top of the market lowers its
2 price, middle and lower market brands must follow.

3 Producers at the opening price point need to be
4 able to offer continued supply, large volumes, and
5 availability upon short notice. This is because in today's
6 market promotion drives the consumer electronics industry.
7 Formerly retailers' promotions took place only during
8 holidays and special events. Now most retailers recognize
9 the need to have promotions on a more frequent basis in
10 order to draw customers into their stores. In order to do
11 so retailers need value brands that can offer a feature or a
12 promotional item. Apex products, value-based products
13 offered prices attractive to customers, are featured in
14 retail flyers on a frequent basis in order to draw customers
15 into their stores.

16 Let me give you an example of how the ability to
17 provide a continuous supply of merchandise is critical to
18 this price point.

19 Last year in late spring we anticipated the port
20 strike in Los Angeles. Understanding that Apex needed to be
21 able to supply demand and meet retailers' promotional needs
22 we imported large volumes of product and dramatically
23 increased our inventory. When the port strike occurred,
24 Apex was one of the few providers able to meet demand and
25 enjoyed an advantage over other importers as a result.

1 Note again that this occurrence, the Port of Los
2 Angeles strike, points out the simple fact that if there was
3 available U.S. production for this market, the opening price
4 point market, then U.S. production could have participated.
5 They didn't.

6 Imports from China and Malaysia today solely serve
7 the opening price point market. These imports have the most
8 minimal competition from U.S. suppliers. If antidumping
9 margins are placed on imports from China and Malaysia, and
10 let's be very clear, U.S. retailers would have to go to
11 other countries for merchandise such as Thailand, India,
12 Vietnam, and Korea. U.S. producers would not participate in
13 this market opening caused by the exodus of the Chinese or
14 Malaysian products as they, with limited exceptions, do not
15 produce the products demanded at this opening price point.

16 We'd like to thank you for the time.

17 MR. LOEB: Mr. Carpenter I'm Hamilton Loeb. I
18 represent the Chinese producers and the Chinese Chamber. We
19 represent nine of the individual Chinese producers. I won't
20 take the time to name them.

21 By my watch it looks like we have maybe nine, ten
22 minutes left. Is that about right? Thank you.

23 I'll take only a fraction of that just to sum up.

24 It seems to me that this surely must be one of the
25 odder cases to come before the Commission in a long time.

1 You have Petitioners where the Petitioners include only one
2 of six U.S. producers. That one is a Petitioner or producer
3 that no one has ever heard of in the industry. You had the
4 largest customer in the color television business, Wal-Mart,
5 tell you this morning that they've never heard of or dealt
6 with Five Rivers. And you had Five Rivers themselves tell
7 you that they don't manufacture anything other than
8 cabinets.

9 There is one other of the domestic producers on
10 record, that's Toshiba, and Toshiba appears as you'll see in
11 your witness list today, in opposition to the proceeding.

12 Moreover, this is a case where the U.S. producers
13 are producing articles that don't compete in the market that
14 Five Rivers is trying to shut down, what you've heard
15 described as the OPP, opening price point market.

16 So we think that this is a proper case for a no
17 injury determination and it's also a proper case for a no
18 causation determination.

19 No injury because there are no effects to a
20 segment where the purported U.S. industry that's bringing
21 the case actually compete. And it's a no causation case
22 because the Chinese and the Malaysian imports that are under
23 challenge here are not a cause of the economic conditions
24 that Five Rivers is claiming characterize the domestic
25 producers. There are other factors on the causation side

1 that the Commission should look closely at. Non-subject
2 imports to begin with, as Ken Button's charts indicated.
3 His Exhibit 2 and Exhibit 3 show that Mexico is growing in
4 the larger components of the subject merchandise, and in the
5 25, 27 inch ranges. Mexico is exchanging share with the
6 Chinese and the Malaysians but the Chinese and Malaysian
7 product is not taking share from the U.S. producers, it's
8 taking it from Mexican imports.

9 So non-subject imports is a critical issue here.

10 Similarly on the causation side where you have
11 U.S. producers not in the market, they as you heard Mr.
12 Bennett testify, lost it to Japanese competition years ago,
13 and what's critical is they are not attempting to move in.
14 They are moving up, not down on the value scale that you
15 heard the Apex testimony and the other witnesses describe.
16 So there is no causal effect in terms of creating injury to
17 the domestic producers.

18 You'll also see there is, we believe when you see
19 the questionnaire data come in, that as is consistent with
20 public data, there is declining unit demand but increasing
21 value on the domestic production side as these domestic
22 producers again move up-scale vacating the area where the
23 Chinese and Malaysian imports have penetrated.

24 Finally, I just want to mention what we think is
25 important, the two year causation gap.

1 Hr. Hobson testified that there were certain
2 products that they made in '98 and '99 that they don't make
3 now, but the complaint you see before you consistently
4 refers to effects that occurred within the last two years.
5 The Five Rivers complaint is about effects that are within
6 the last two years.

7 In that vein, I would also stress that the price
8 suppression claim should be looked at quite carefully in
9 terms of that period of investigation.

10 Of course you heard Mr. Hobson himself testify
11 that price erosion is built into any electronic product of
12 this kind. Moreover, when you look at the Five Rivers
13 questionnaire on pricing products I'd ask you to look
14 carefully at the dates and sequence in which pricing effects
15 that they are reporting occurred and compare that to the
16 claim that the injury had occurred within the last two years
17 as a result of the period when Chinese and Malaysian imports
18 penetrated.

19 Just one point on threat. Mr. McGrath testified
20 that the Chinese color television producers, as he said, are
21 inexplicably increasing capacity. It is hardly
22 inexplicable. China is a country that has an enormous
23 domestic demand for color television and an enormously
24 growing and increasing domestic demand. I'm sure when you
25 review the foreign producer questionnaires and look at home

1 market demand figures you will see some evidence of that.

2 Demand in China is exactly at the same place on
3 this tiering scale where the OPP market is in the U.S..
4 That is to say the type of units that are in demand in China
5 are the type of units that are being sold to Wal-Mart and
6 others at the OPP level. It is no wonder then that capacity
7 in China is growing. That is no threat. That's merely a
8 reality of the growing economic home market in China.

9 In that respect I would ask also that the staff
10 look at the request we put in writing in a letter with
11 respect to Exhibit 7 to the petition. You've been given
12 three pages of a lengthy document. It's redacted. We think
13 that you should have the full document and it's our belief,
14 although we have not actually seen it, it's our belief that
15 that will further demonstrate that there is a substantial
16 increase in demand in the home market in China that plays a
17 major role in terms of what's happening with respect to
18 production and capacity and shipment levels.

19 For all those reasons we, speaking on behalf of
20 the Chinese and speaking on behalf of Malaysian imports as
21 well, think that this is an appropriate care for a
22 preliminary negative, either or both on non-injury grounds
23 and non-causation grounds, and we would ask that you
24 recommend that to the Commission.

25 MR. CARPENTER: Thank you very much for your

1 testimony. We will accept as Respondent's Exhibit 1, the
2 Conference Exhibits of John J. Reilly; Respondent's Exhibit
3 2, the Economic Consulting Services Exhibits; and
4 Respondent's Exhibit 3, the chart provided by Mr. Bennett.

5 (The documents referred to were received as
6 Respondent's Exhibits 1-3.)

7 MR. CARPENTER: We'll begin the questions with Mr.
8 Timberlake.

9 MR. TIMBERLAKE: (No audible response)

10 MR. CARPENTER: Mr. deWinter?

11 MR. deWINTER: Hello, and thank you for coming
12 today.

13 The Petitioners' panel have laid out this
14 segmented market in terms of screen size. They said the
15 various screen sizes and it's easy enough to identify where
16 the various segments are depending on the screen size.

17 You're saying the market is segmented differently.
18 It's actually good, better best, or three tiers.

19 It's hard for me to understand exactly what each
20 tier is. I think, Mr. O'Connor, you sort of mentioned the
21 good, better, best first, so I'll let you if you can sort of
22 define for me what classifies a television in each of those
23 categories, and then maybe if Mr. Hashimoto and Mr. Bennett
24 could then agree with you or maybe have differences.

25 Thank you.

1 MR. O'CONNOR: To answer that question, first of
2 all there is in our opinion and our view and the way we
3 merchandise product at Wal-Mart there is a good, better,
4 best within each screen size. So within a 27 inch
5 television set you would have a television set that has a
6 set of features on it. A better set would have a better set
7 of features, perhaps stereo television versus a mono
8 television, perhaps AV jacks in buying the television and
9 there will be different step-up features from one model to
10 another. And with that we'd also have different brands. So
11 we might have a best brand, a better brand, and an opening
12 price point brand within a size screen.

13 MR. deWINTER: I'm looking for a little bit more
14 specific. How could you define an entry level or a good
15 television? Are there any features that we can sort of
16 pinpoint and say well, I can look at another television from
17 another store and say this is a good television or this is a
18 better television?

19 MR. O'CONNOR: With respect to features, a good
20 television would have mono, it wouldn't be a stereo. It may
21 not have AV jacks on the front. A better television
22 probably would have AV jacks on the front, could have stereo
23 television. The third tier might offer additional features
24 such as S video jacks for home theater systems, picture in
25 picture, and now with new technology it could be as much as

1 high definition or a flat screen versus a curved screen.

2 MR. deWINTER: How does digital and high
3 definition fit into all of this?

4 MR. O'CONNOR: It's new technology right now and
5 it would be definitely at the high end.

6 MR. deWINTER: And in all sizes?

7 MR. O'CONNOR: That's not necessarily available in
8 all size screens.

9 MR. deWINTER: The bigger ranges?

10 MR. O'CONNOR: Yeah, 27 and above. I mean you can
11 get some LCD screens in 15 and 17 inch, but it's
12 predominantly in the higher size.

13 MR. deWINTER: Mr. Bennett, Mr. Hashimoto?

14 MR. BENNETT: I would agree with Mr. O'Connor.

15 To answer your digital question, the reason it's
16 not available in all sizes, since both of you are both
17 consumers in the marketplace just recently for TVs, it's
18 more expensive. So basically it's larger screen sizes. But
19 it could start with a 27 inch 4x3 and move up to the 16x9 in
20 glass, projection TV, plasma, and a whole array. But
21 they're all in that top tier or top category.

22 One other distinction could be frankly, although
23 the other panel only gave Sony the ability, that they were
24 the only one that had a recognizable brand name, I would say
25 Mitsubishi, Hitachi, Panasonic and Toshiba certainly have

1 strong brand names. Samsung. There's a lot of strong brand
2 names.

3 The consumer will go out and they may have a
4 preconceived notion of what that brand is, whether it's in
5 the middle, at the top; and as Mr. O'Connor said, it is
6 segmented even by the manufacturers like ourselves.
7 Certainly Mitsubishi, Hitachi, Sony, of different feature
8 content, means a higher price. A lot of times these three
9 tiers are segmented within a product line by average selling
10 price point. A customer assumes when they look on a shelf
11 and they see a certain product in Toshiba and JVC and
12 they're \$20 maybe difference, or actually the same price,
13 they're sort of in the same category and they sort of
14 compare those products to one another. If they're on the
15 shelf next to each other in that given retailer. So there
16 are a lot of factors.

17 And design also. Industrial design. The outlook
18 of the product is another factor of what is appealing to the
19 customer.

20 MR. BROTHERS: Just top add something.

21 The primary television set in a person's home is
22 going to carry, the brand name will carry more weight.
23 Someone very well might buy a Sony television because when
24 they have visitors they like people to say that they have a
25 Sony television in the home. Whereas if they're buying a

1 television set for the kids' bedroom or for a play room they
2 really don't care so much about the brand name. So that
3 definitely, the prestige factor absolutely plays a major
4 part in the decisionmaking process.

5 MR. deWINTER: And all brand names make from 19
6 inch, the smaller sizes, all the way up to the larger sizes?
7 Is that your experience? Like Sony will make --

8 MR. BROTHERS: Yes.

9 MR. deWINTER: And the mid-range will also make
10 all kinds --

11 MR. BENNETT: Sony will offer a 20 inch TV. It's
12 either 19 or 20 inch. Sony will have a 20 inch, so will
13 Toshiba, so will Apex, so will Emerson or other brands that
14 they may have. So everyone offers the screen size because
15 frankly, from our perspective, we're trying to sell the
16 retailer on carrying each of our screen sizes, 20, 24, 27,
17 so that we can have shelf space, so we can gain hopefully
18 some day brand awareness with the consumer so when they come
19 in they can see Apex. It doesn't always work that way but
20 that's the initial strategy. So you have to participate in
21 each one of those screen sizes with some type of product.

22 MR. CONNELLY: Can I just jump in for a second?

23 MR. deWINTER: Please do.

24 MR. CONNELLY: I just want to clarify that Funai's
25 screen sizes stop at 32.

1 MR. deWINTER: I'm going to go back to you, Mr.
2 O'Connor.

3 Do domestic manufacturers sell in the loosest
4 category, the good, or is your experience that they sell in
5 the middle or upper tiers exclusively?

6 MR. O'CONNOR: It's our experience that they sell
7 in the middle or upper tier.

8 MR. deWINTER: Do they manufacture televisions
9 that have these features that you described earlier as just
10 the standard, good television?

11 MR. O'CONNOR: I think some of them may offer a
12 small amount of product in that category, but most of the
13 product that they come in and offer to sell us are featured
14 better.

15 MR. deWINTER: Anyone else want to comment on
16 that? Anyone know about domestic manufacturers and whether
17 they make the lower end televisions too?

18 MR. BENNETT: Frankly, we don't have the
19 information what they exactly do produce in all honesty. We
20 know within their lines the people that supposedly are
21 involved, these names. They do have a 20 inch TV. Frankly,
22 where it's made, I'm not sure.

23 MR. deWINTER: Mr. Bennett, your television is the
24 Apex's?

25 MR. O'CONNOR: Apex brand.

1 MR. deWINTER: Are they sold in the same retail
2 outlets as the domestic televisions?

3 MR. O'CONNOR: Yes.

4 MR. deWINTER: And you basically just sell in the
5 lower end of the, or the good televisions? Do you sell in
6 the mid range and the upper end too?

7 MR. O'CONNOR: Right now that's our position in
8 the market is opening price point. We have higher end TVs
9 but we sell very little of the pure flat. A very
10 insignificant share, like one percent. So we are in that
11 good tier.

12 MR. deWINTER: But you do sell a little bit in the
13 other tiers?

14 MR. O'CONNOR: Yes.

15 MR. deWINTER: Mr. Hashimoto?

16 MR. HASHIMOTO: Maybe this time I give quite a
17 general idea for industries and even though we don't speak
18 out, but I believe there is a kind of brand exchange rate.
19 What I mean brand exchange rate is if Sony or JVC or these
20 brands are in the top perceived value in the market by
21 brand, maybe next comes people like Panasonic or then come
22 Toshiba or JVC or then comes Sharp and then comes OPP brand,
23 people like us and maybe Apex.

24 So there is existence of the brand exchange rate.
25 That's what I mean, brand exchange rate. But there is also

1 differences.

2 For example, if you pick up the same unit, exactly
3 same feature. Let's say pick up a Panasonic unit and then
4 you pick up our Funai unit, features exactly same and
5 obviously I believe Panasonic units more expensive and maybe
6 because of brand. But that is just the nature of how the
7 people see the brand and the value of the product.

8 MR. deWINTER: What about the features themselves?
9 I understand the brand side, but does Funai make televisions
10 that have features that would compete in what we consider
11 the mid range or the upper range of the market?

12 MR. HASHIMOTO: Currently I don't think so. We
13 are strictly trying to promote our products at the OPP
14 level. Actually we also negotiate and discuss with our
15 customers directly from time to time. We invite over, they
16 come to the office and we discuss all the products, future
17 products, and we discuss the features. At that time we
18 decide parties.

19 MR. deWINTER: Do you produce any televisions that
20 have some of the features that Mr. O'Connor mentioned like -
21 -

22 MR. HASHIMOTO: -- picture or --

23 MR. deWINTER: Yeah or AV jacks or --

24 MR. HASHIMOTO: AV jacks is quite just a feature
25 that you have to have because of DVDs start to expand to

1 replace the VCR. Without the AV jack you can't see
2 anything. So obviously the AV jack is kind of a minimum
3 feature that you have to have before the TV.

4 PIPs actually maybe each people might tell you the
5 different prices, but it's very expensive. Is very kind of
6 a top of the line top feature. Because of price factor, but
7 also because of brand factor.

8 MR. deWINTER: So you all agree that a picture in
9 picture would be a feature in the highest end of the market,
10 is that right?

11 MR. BROTHERS: It could be in the middle as well.

12 MR. BENNETT: There is no Apex product, color TV,
13 that has picture in picture.

14 MR. deWINTER: And no Funai's as well.

15 MR. BENNETT: No.

16 MR. deWINTER: My next question is basically about
17 non-subject imports and Mr. O'Connor, you're the wealthy of
18 knowledge on the purchaser side here.

19 If you could tell us a little bit about what the
20 Mexican-manufactured televisions are like. Do they compete
21 with the U.S. products in the upper range, the middle range?
22 Do they compete in all three ranges? Do they have a niche?
23 Tell us a little bit about the Mexican imports if you could,
24 if you know something about them.

25 MR. O'CONNOR: Mexican imports to our, if I think

1 about the way different companies come in and talk to us,
2 Mexican products are mostly in the middle range and the
3 better range. There might be, and I'm talking in very
4 general terms now, and I'm also thinking about our entire
5 television business across, anywhere from nine inch
6 television up to 32 inch television screens. So there might
7 be some that are building product in Mexico on the low end,
8 but for the most part it is in the middle and the upper
9 tier.

10 I'm thinking about different brands that we deal with.

11 MR. deWINTER: If you could address in a post-
12 hearing brief, Mr. Connelly, I think I'm addressing this
13 question to you, but if you could somehow nail down a
14 general definition for each of these. You claim there are
15 these three tiers, but it's kind of hard if you're saying
16 domestics don't compete in Tier X while we have to know what
17 Tier X is and what features those TVs carry so we can see if
18 they compete in that tier or not. So it would be really
19 helpful if you could provide us with some kind of working
20 definition of what each tier is and what --

21 I understand there is probably some overlap in
22 there, but so we can get a handle on what they are.

23 MR. CONNELLY: We'll do that, but here's what
24 we'll also do.

25 We'll tell you about by far the largest majority

1 of the sales that Funai has made in the United States in the
2 period of investigation, and we'll tell you who the
3 competition was for those sales. That I think by definition
4 is going to tell you who is in the OPP tier where most of
5 our sales are.

6 MR. deWINTER: That would be very helpful. Thank
7 you very much.

8 MR. CARPENTER: Mr. Thomsen?

9 MR. THOMSEN: Thank you.

10 I actually wanted to continue on this vein just a
11 little bit, but with a little twist.

12 Mr. O'Connor, this actually goes toward you.

13 How are the features that you're looking for in
14 this after-Thanksgiving sale, how are they determined? Do
15 you say we want X, Y, and Z feature on these televisions and
16 we want it for this price? Or do you ask what Funai or Apex
17 or Orion have to offer and then what kind of price can they
18 give you on there? I'm just looking for a little more
19 detail into this process.

20 MR. O'CONNOR: I'd be more than happy to go
21 through the entire process with you confidentially. But
22 I'll give you an overview to it.

23 MR. THOMSEN: Okay.

24 MR. O'CONNOR: Typically we decide, the buyer and
25 myself decide the specifications of the product that we want

1 to offer. We then give those specifications to different
2 suppliers and ask them to bid on that and they generally
3 come in and give us a bid. We give them parameters as to
4 when we need to take delivery, when it needs to be delivered
5 by, and we give them an idea of what the quantity is going
6 to be.

7 MR. THOMSEN: Do you have, I don't know if you'd
8 want to state here, I don't know if it would be BPI for you,
9 but for this most recent year, the 27 inch that Funai --
10 Maybe this would be a question for Mr. Hashimoto. But I was
11 wondering if you could give the specifics of what you were
12 asking for in this last year. Whether it be component video
13 input, composite video input, S video, RCA jack, stereo
14 sound, pretty much all the nitty-gritty about what you
15 wanted.

16 MR. O'CONNOR: We gave them some general
17 specifications. We did not look for a high featured set.
18 We wanted something that was opening price point. So we
19 didn't have a large list of specifications that we were
20 looking for or additional features that we wanted. We
21 wanted a basic 27 inch television that worked, had a remote
22 control with it, gave good picture quality with a good value
23 to our customer.

24 MR. THOMSEN: Okay. And can I ask what that
25 television actually had when it came out? Again, either you

1 or Mr. Hashimoto.

2 MR. O'CONNOR: I don't remember.

3 MR. CONNELLY: We can get it for you.

4 MR. BUTTON: The question is for the 27 inch
5 Thanksgiving day sale, what were the features?

6 MR. THOMSEN: Correct.

7 MR. HASHIMOTO: My understanding is most likely a
8 unit that has remote control but not a universal remote
9 control. There are so many controls, and when you go to the
10 owner's manual some of the controls claim that I can control
11 the Sony or JVC or Toshiba or the TVs and the VCRs or DVDs.
12 Actually we don't look at that as features on our unit. Our
13 remote is a straight, very simple remote.

14 MR. THOMSEN: What type of input devices did you
15 have on it?

16 MR. HASHIMOTO: It should have AV input, a full
17 audio and input.

18 MR. THOMSEN: Is that a composite video jack?

19 MR. HASHIMOTO: Just a regular AV -- I mean --

20 MR. THOMSEN: One input rather than the separate
21 left and right audio channels and --

22 MR. HASHIMOTO: Normally, yes.

23 MR. THOMSEN: So one with the three --

24 MR. HASHIMOTO: That's what we normally say,
25 simple stereo. Just regular stereos. Two input for right

1 channel and left channel and the video input.

2 MR. THOMSEN: But no S video input or component
3 video --

4 MR. HASHIMOTO: No.you.

5 MR. CONNELLY: What we'll try and do, we'll try
6 and get you a picture of that set with a list of what it had
7 on it.

8 MR. THOMSEN: Wonderful.

9 And for both Apex and Funai, we know that Funai
10 offers from nine inch up to 32 inch, and we did hear earlier
11 that Apex offered a projection television or some projection
12 television. I'm looking for what kind of --

13 MR. BENNETT: In color TVs we offer from 13 inch
14 up to 32, and we have projection TVs that are 43 inch and 51
15 inch an 65 inch.

16 MR. THOMSEN: Do you sell them under the Apex
17 brand names?

18 MR. BENNETT: Only under Apex.

19 MR. THOMSEN: Do you know how may different models
20 you have? Your entire catalog of color television?
21 Approximately.

22 MR. BENNETT: It's approximately 32 models
23 altogether. It probably comes as a surprise to most people
24 in this room that we were in the projection TV business last
25 year.

1 MR. THOMSEN: How about for Funai? How many total
2 models do you sell?

3 MR. CONNELLY: Are you talking about just
4 subjects?

5 MR. HASHIMOTO: No. Total.

6 MR. THOMSEN: They said from 32, going from 13 up
7 to 32 plus their projection television. You can say how
8 many that are in subject also if you want.

9 MR. HASHIMOTO: Let's start from the TV/VCR combo.
10 We have a nine inch TV/VCR combo, 13, 19, and then we have
11 what we call the triple combo like TV and the VCR and the
12 DVD. We have two models, 19 and 27 inches. Then the combo
13 TVs. TVs starting from 13 inches, 19 inches, 20, 23, 27,
14 and 32.

15 MR. THOMSEN: And you only offer one model at each
16 size? Or do you offer more than one model at each size>?

17 MR. HASHIMOTO: Actually we don't offer TV for
18 nine inch categories. TV/VCR only for nine inch. After the
19 unit is AC/DC so that the people can bring into the car and
20 the boat. That's how we designed it.

21 MR. THOMSEN: But say on a 27 inch model, do you
22 only offer one model?

23 MR. HASHIMOTO: Actually we have two models. One
24 unit is flat screen TV and one unit is a round screen TV.

25 MR. THOMSEN: Is it similar for a 32 inch and --

1 MR. HASHIMOTO: No. I mean the flat screen is for
2 20 and 27. I'm sorry. Forgot to tell you.

3 MR. THOMSEN: Okay, thank you.

4 MR. HASHIMOTO: The 32 inch is a round screen.

5 MR. THOMSEN: Okay.

6 If I may jump back to Mr. Bennett for a second,
7 you noted on your handout that you had here that Sharp and
8 Samsung had jumped up to the middle market from the OPP
9 market, yet you had not said what happened to Daewoo and
10 Lucky Goldstar. Did they exit the market completely?

11 MR. BENNETT: AT the time Daewoo exited the market
12 completely. Now they're coming back. Lucky Goldstar
13 purchased a company called Zenith and they are no longer
14 selling TVs under the Goldstar brand. They've gone the
15 digital route under the Zenith brand.

16 MR. THOMSEN: The digital route meaning only
17 digital TVs?

18 MR. BENNETT: Yes. Under the Zenith brand.

19 MR. THOMSEN: So they would be hopping up to the
20 top market.

21 MR. BENNETT: Yes.

22 MR. THOMSEN: I think that is all the questions
23 that I have for now.

24 Thank you all for your interest.

25 MR. CARPENTER: Mr. Kitzmiller?

1 MR. KITZMILLER: No questions.

2 MR. CARPENTER: Mr. Baker?

3 (No audible response)

4 MR. CARPENTER: Mr. Deyman?

5 MR. DEYMAN: I'm George Deyman, Office of
6 Investigations.

7 Mr. Bennett, and Mr. O'Connor, and Mr. Hashimoto
8 all seem to agree that there is what's called an opening
9 price point market and then I guess a middle market and an
10 upper top market.

11 And the sets that are sold by Apex and Funai and
12 others perhaps in China and Malaysia are in the opening
13 price point market and they're somehow different for the
14 most part from the sets in the upper markets.

15 Given that, we asked in our questionnaire for
16 pricing data on seven products and the specifications for
17 each of those seven products are very defined. If you
18 report, let's say Mr. Bennett, that Apex had sales in
19 Product 1 for example, and I haven't seen your
20 questionnaires so I have no idea, but Product 1, would your
21 Product 1 be competing directly against the Product 1 of the
22 Petitioners?

23 MR. BENNETT: Could you tell me what Product 1 is
24 again, I can't remember?

25 MR. DEYMAN: For example, Product 1, 27 inch

1 direct view analog, non HD ready CTV with curved tube, four
2 to three aspect ratio, stereo sound, rear AV input jacks,
3 front AV input and standard remote. There are very specific
4 specifications.

5 MR. BENNETT: Those features would compare.

6 MR. DEYMAN: So if you report a product one,
7 presumably it is competing against the Product 1 of the
8 Petitioners.

9 MR. BENNETT: On feature content, yes, if you're
10 not allowing anything for brand, design. You didn't say
11 anything really in the questionnaire about what type of, I
12 don't believe, remotes. I'm not sure if it's in there or
13 not.

14 MR. CONNELLY: Could I jump in there on that one?

15 MR. DEYMAN: Universal remotes. Sure.

16 MR. CONNELLY: We've got a document that is
17 compiled internally by Funai, a type of document and it's
18 called a retail shelf report. Basically it consists of a
19 list of all the models that are on the shelves of specified
20 retailers on a certain day. What we'll do is we'll submit
21 to you that retail shelf report for the days we've got it.
22 We just picked at random. I think they're last year.

23 What you'll see is a wide array of prices within
24 the 27 inch range, for example. But we've got it listed for
25 every screen size on the shelves of Wal-Mart, Sears, Target,

1 you name it. The big retailers. And I'm sure everybody
2 else has that too.

3 I think this will help you understand a little bit
4 how it is that within any particular size there is still a
5 wide variety of prices that have to be attributed to
6 something other than features because in some cases those
7 features are identical or very similar.

8 The other thing is you will see the proof of Funai
9 being at that opening price point level.

10 MR. BENNETT: If I may throw in, an Apex opening
11 price 27 inch stereo would not have a universal remote.
12 Most of the people that you'd say go to the middle tier,
13 their basic is going to have a universal remote.

14 MR. REILLY: Mr. Deyman, I'd like to emphasize one
15 thing that Mr. Bennett said. That is if you leave brand out
16 of it. As a matter of economics you cannot leave brand out
17 of it.

18 Given this market tier structure one would expect
19 that a comparably equipped Apex TV set and a comparably
20 equipped Toshiba TV set would sell at different prices and
21 that the Toshiba TV set would command a premium on the
22 strength of its brand.

23 MR. DEYMAN: That's very helpful. I was in no way
24 trying to challenge your argument. What I was trying to get
25 at is are the pricing data that we're going to collect any

1 good or not.

2 MR. CONNELLY: Not as good as they could be.

3 MR. DEYMAN: That's very important. Tell us more.

4 MR. CONNELLY: We will explain it in our brief.
5 Part of it Mr. Hashimoto alluded to in his testimony with
6 respect to the difference between promotional sales and
7 everyday sales. Right now that data is aggregated in our
8 view. Therefore there is going to be a very distorted
9 comparison because of the differing mix say between Funai's
10 prices or say the prices that other direct importers from
11 Funai will report on the one hand, and possibly domestic
12 producers on the other. Even if you assume a quality of
13 product.

14 MR. DEYMAN: If a set is sold at a promotional
15 price and someone buys the set at that promotional price,
16 then they're not buying another set that is at a non-
17 promotional price, so wouldn't they compete?

18 MR. BUTTON: Ken Button. I'd like to respond to
19 that.

20 One of the characteristics that John Reilly
21 emphasized in his testimony and with which I agree is that
22 the elasticity of demand for this product is in fact quite
23 high. One of the roles of the promotional models is to draw
24 into the store customers who otherwise would not or might
25 not buy a television on that occasion or at the prevailing

1 level of prices.

2 It's a view that the promotional event has the
3 effect of expanding the number of buyers and therefore we
4 don't think necessarily displaces buyers that would
5 otherwise buy product on the everyday basis.

6 MR. REILLY: I'll elaborate on that.

7 In my opinion the most important characteristic of
8 this market that the Commission should consider is the fact
9 that demand for color TV sets is elastic to price, and that
10 demand elasticity is significant.

11 If you accept that view then it's very difficult
12 to find that the entry of attractively priced product is
13 going to injure other participants in the market because
14 it's going to expand the market, it's going to expand the
15 pie to a significant degree.

16 Now market shares will shift simply because of the
17 way market shares are calculated, but basically the market
18 share that goes to the product entering the market at a good
19 price is incremental, is an incremental market that wouldn't
20 be there but for this attractively priced product.

21 Thanks.

22 MR. DEYMAN: I have a follow-up question on the
23 product from Mexico. Mr. O'Connor indicated that it was his
24 opinion that for the most part the product from Mexico is
25 not in the opening price point market and tends to be in the

1 higher markets. I'd like some of the others to comment on
2 where they believe the Mexican product to be.

3 MR. BENNETT: Having worked for a manufacturer
4 that produces in Mexico I would have to say that, in my
5 opinion, most of the production are from Japanese
6 manufacturers that have a higher brand image in this
7 country. Mitsubishi, Hitachi, Toshiba, Sony, Sharp all are
8 producers, and even some former American names that are
9 French -- RCA and Phillips, they're all Mexican-produced
10 products. So they all have a higher brand awareness than
11 Apex. And the prices are higher.

12 MR. DEYMAN: And yet one of you, I believe it was
13 Dr. Reilly said earlier, I believe it was in Figure 2 in
14 your charts, that it seemed in your opinion to indicate that
15 the TV receivers from China and Malaysia had taken market
16 share from the TVs from Mexico.

17 MR. REILLY: I believe those were Dr. Button's
18 charts. I'll let him comment on that.

19 MR. BUTTON: Looking at the basic volume figures,
20 the trade stats, that is the conclusion one draws. I'd be
21 happy to comment further about that in the brief.

22 MR. DEYMAN: It would be very helpful to have a
23 good analysis if you could provide that for us of the impact
24 on the market of the imports from Mexico which account for
25 the bulk of the market, and any effects that they may have

1 on the domestic industry. That would be helpful.

2 MR. REILLY: I would, simply because I'm working
3 with a competitor here, I've got to note one other thing
4 about Dr. Button's charts. That is he emphasized that the
5 imports from Mexico overall have increased steadily and
6 that while there was a decline in the 27 to 30 inch segment,
7 there was a very significant increase in the larger sizes.

8 Now that from a manufacturers viewpoint would be
9 quite a desirable circumstance because you're moving up to a
10 higher value product that by its nature is more profitable
11 and therefore moving out of the 27 inch say category.

12 That movement, both in terms of the increase in
13 total imports and the movement up market should have a
14 rather significant deleterious effect on the domestic
15 industry.

16 MR. DEYMAN: That's helpful.

17 Thank you, I have no further questions.

18 MR. CARPENTER: If I could just start out with Dr.
19 Button, a clarification question on your exhibits.

20 Is it true that Exhibit 1 includes television
21 receivers of the smaller sizes that rare outside the scope
22 of the investigation?

23 MR. BUTTON: No, it is not. We have sought to
24 adjust these data in the same manner that the petition did
25 to exclude the smaller size televisions.

1 MR. CARPENTER: I saw the size limitations in
2 Exhibits 2 and 3 and didn't see one in Exhibit 1. So is
3 Exhibit 1 a sum of Exhibits 2 and 3?

4 MR. BUTTON: We have attached to the back of these
5 the data from which they're drawn. It is the -- Exhibit 1
6 is for the listed HTS categories, there are nine of them,
7 with an adjustment to delete, to remove the smaller sets.

8 Exhibit 2 is exclusively the smaller of the analog
9 conventional television, HTS category.

10 Exhibit 3 is exclusively the larger of the HTS
11 category for analog conventional TVs. Does that help?

12 MR. CARPENTER: Yes, thank you.

13 I was struggling with some of the same questions
14 that some of the other staff had on this, the three tiers to
15 the market -- good, better, best, or opening price point,
16 middle market, top market. I'm just wondering how well
17 delineated are these three tiers? Also, are they mainly
18 viewed that way by purchasers or is this a well accepted
19 principle in the market? For example, are there any
20 independent rating authorities or whatever that track data
21 by these three tiers?

22 MR. O'CONNOR: I'll respond first from a
23 retailer's point of view. I think it's a pretty common
24 practice in retailing. I think it's difficult when we talk
25 in the abstract here, but I think when you're sitting on a

1 retail floor and you're looking at three television sets
2 that are all 19 inch in front of you, you can pretty well
3 distinguish between the three of them with feature content.
4 I think that is a common merchandising practice, whether it
5 be a Wal-Mart or other retailers. In fact I think Sears was
6 probably the one that kind of mastered this thing long ago.

7 I think retailers understand. I think it's the
8 way we present product to the customer. In a selling floor
9 like ours where we don't have any sales people to help it's
10 extremely important that we are able to differentiate for
11 the customer as they're looking at the different televisions
12 on our wall what's the product differential between the
13 three of them and how much are they going to pay for that
14 and where the brand is related to it and so forth. So I
15 think in the abstract it's a little difficult, but I think
16 when you're actually looking at it you make sense out of it.

17 MR. CONNELLY: We're hopeful that when Sears gives
18 you a written statement they'll explain to you in a bit of
19 detail how they view the range of sets. We've had a
20 conversation with them that indicates they see a
21 stratification as well, but we'll leave it to their
22 submission to explain it to you in detail.

23 MR. CARPENTER: That would be helpful.

24 Mr. O'Connor, in your responses to the questions
25 you seem to be pretty consistent in differentiating the

1 categories by features which I can understand, and others
2 have also explained the fact that brand name loyalty or
3 recognition also has an influence on price and I can
4 understand that.

5 Another issue I was wondering about was quality.
6 When I see words like good, better, best I think of
7 quality. One thing I'm wondering is for the different
8 suppliers out there, given that the features are the same,
9 is the quality basically the same regardless of who the
10 manufacturer is or are there also differences in quality?

11 If anyone wants to touch that.

12 MR. CONNELLY: We'll give you some more detail in
13 our brief about our view about quality, but certainly Mr.
14 Hashimoto testified that we view our quality, the quality of
15 Funai sets, as extremely high.

16 MR. BENNETT: I would say in Apex a product made
17 from Chang Hong. I don't think quality in our industry is as
18 big an issue as it was 20 years ago. That's why you don't
19 say poorly made product, better made product. It's good
20 product. Mainly because there are industrial standards that
21 have to be met for manufacturing that are worldwide.
22 Therefore, because of those standards the product is
23 generally pretty good quality.

24 Our better quality, depending if it's digital or
25 not digital, and maybe that's some way to segment it.

1 MR. CARPENTER: I appreciate that, and that's the
2 impression I had from all of your testimony was that in
3 determining differences in price it was mainly driven by
4 differences in features and then also by the brand names.

5 If any of you have any further thoughts that you
6 want to expand on in your briefs as far as just how
7 important brand name is in determining price, I'd appreciate
8 comments on that.

9 MR. LOEB: Could I just add one note on that? From
10 the standpoint of the Chinese producers, and we hope to
11 elaborate this further in post-conference briefing, it's
12 very important not to underestimate the role of brand in the
13 process of the differentiation that you're asking about.

14 In the same way that Starbucks calls it tall,
15 grande and venti, because they don't want to call it small,
16 we hear good, better and best. But when the consumer is in
17 the store looking at the choice, it's largely going to be
18 the brand identification that's going to be the first
19 factor. There's going to be a price difference associated
20 with that brand identification in the consumer's reaction.

21 I can't say yet whether we know whether there are
22 marketing data that will address that issue specifically.
23 We are looking for it. I'm just not sure in the timeframe
24 we've got whether it will appear and become available
25 because of proprietary rules or not.

1 MR. CARPENTER: Thank you. If there is any
2 independent marketing data out there that refers to these
3 three tiers we'd certainly like to see that.

4 The only other question I had was, Mr. Hashimoto
5 in your testimony where you refer to the fact that prices
6 charged in promotional sales cannot fairly be compared to
7 prices that vendors charge in everyday sales, and I think
8 Mr. Deyman touched on this.

9 I just wondered, maybe Mr. Connelly, in your
10 brief, if you're aware of any case precedents where the
11 Commission has found that it's not proper to compare
12 promotional sales with regular sales, that would be helpful.

13 MR. CONNELLY: We'll look for those kinds of
14 precedents. I think what we'll also be able to do is give
15 you prices for identical or almost identical products sold
16 on an everyday lower volume basis and on a promotional
17 higher volume basis, and you'll see the distinct difference
18 there. We can document the difference.

19 MR. CARPENTER: Thank you.

20 MR. O'CONNOR: Mr. Carpenter, could I just make a
21 statement?

22 MR. CARPENTER: Sure.

23 MR. O'CONNOR: First of all, this is the first
24 time I've been to a hearing like this so I really appreciate
25 the opportunity. I've learned a lot.

1 One of the things that occurred to me as I'm
2 listening to everything going on today is that listening to
3 some of the brands that we're talking about that are
4 concerned about what's going on in the U.S. industry, I
5 looked at the brands, and a lot of these brands won't sell
6 Wal-Mart. Toshiba won't sell us televisions, Sharp won't
7 sell us televisions, and Sony just started selling us
8 televisions.

9 So it occurs to me that I'm not so sure that it's
10 not somewhat self-inflicted. If they want to do more
11 business there are retailers they could be doing business
12 with that they aren't today.

13 I say that for what it's worth. I don't know if
14 that helps our case or hurts our case or whatever, but I
15 think --

16 MR. CONNELLY: I'd say that helps.

17 (Laughter)

18 MR. O'CONNOR: It was just kind of interesting
19 that as this is all developing today that they don't sell
20 some retailers.

21 MR. CARPENTER: Is your assumption that they don't
22 approach you because they tend to sell at a higher price
23 point?

24 MR. O'CONNOR: I'm not sure what their reasons
25 are, to be honest with you. I know that was Sony's

1 rationale, but I have a hard time believing that if Sony
2 will sell us and Panasonic will sell us, that Toshiba
3 couldn't sell us or Sharp couldn't sell us or Samsung
4 couldn't sell us or others.

5 MR. CARPENTER: Okay.

6 Any others? Mr. Thomsen.

7 MR. THOMSEN: With regard to that point, did you
8 say Samsung wouldn't sell to you? Or do you carry Samsung's
9 products?

10 MR. O'CONNOR: Samsung will not sell us product.

11 MR. THOMSEN: Would you be able to put a list
12 together of who would not sell you products?

13 MR. O'CONNOR: Yes.

14 MR. THOMSEN: For the post-conference brief.

15 MR. O'CONNOR: Yes.

16 MR. THOMSEN: Thank you.

17 MR. CARPENTER: Once again I want to thank this
18 panel for your helpful testimony and your answers to the
19 staff questions.

20 We'll take a short break until about 1:25 and
21 allow Mr. Hartquist and his group to prepare a rebuttal
22 statement. Then after he's finished the Respondents can
23 come back. Each side gets ten minutes for rebuttal.

24 Thank you.

25 (Whereupon, a brief recess was taken)

1 MR. CARPENTER: Actually, Mr. Hartquist says he's
2 ready now, so we're happy to have you. Thank you.

3 I think we're ready, if everyone could take their
4 seat please.

5 Okay, Mr. Hartquist, whenever you're ready.

6 MR. HARTQUIST: Thank you, Mr. Carpenter.

7 This has been an interesting hearing. I've
8 learned a lot myself, although I thought I knew a lot about
9 the television industry.

10 I'd like to address first the issue of Funai as a
11 niche player. Mr. Hashimoto referred in is testimony to the
12 awards that Funai has gotten from Wal-Mart as the Supplier
13 of the Year in 2002, also the International Supplier of the
14 Year in 2001, and he referred to certain criteria that Wal-
15 Mart uses in identifying those receiving such awards. The
16 one thing he didn't mention, however, is what's in the Funai
17 press release announcing receipt of these awards which is
18 perhaps in their view the most significant criteria, and
19 that is that "this highest prized annual award is bestowed
20 on the suppliers that make significant contribution to the
21 growth of Wal-Mart business."

22 It doesn't sound like a niche player or a small
23 player in the marketplace.

24 Further, to that point, Mr. Hashimoto has pretty
25 well testified that they supply product throughout the

1 spectrum that we're talking about here in terms of the scope
2 of this investigation. The size ranges and different models
3 within each size. They're a very significant competitor.

4 Interestingly, Funai had a significant production
5 facility in Mexico that was closed about two or three years
6 ago, I don't know the exact date, and moved to Malaysia
7 building material for Phillips. So they're really not a
8 niche player. They've been a significant factor in this
9 marketplace and they certainly remain a significant factor
10 as far as the domestic producers are concerned.

11 It was mentioned about Five Rivers, the products
12 they compete with and where they are on this spectrum, about
13 half of their product is the 25, 27 V range. Someone had
14 commented that Five Rivers is primarily a projection
15 television set producer which is just not the case and you
16 have that in the data that's been supplied to you.

17 I want to comment a little bit about Dr. Button's
18 testimony with respect to the role of the Mexican producers
19 in the market and what has happened. Frankly, either Dr.
20 Button's own data belies the statements that he's made or I
21 simply missed the point entirely, so let me throw this out
22 and if I've missed the point entirely I'm sure Dr. Button in
23 their brief will correct me.

24 But I think he's argued that the changes in market
25 share have not affected the domestic producers. It's

1 essentially been the Mexicans that have taken the hit, the
2 Mexican producers that have taken the hit.

3 But if you look at the data that Ken has provided
4 in Exhibit 2, for example, imports from 2000 to 2002 from
5 the subject countries from China and Malaysia increased by
6 over 2.2 million units. The Mexicans lost about 727,000
7 units.

8 So my point is a very simple one. The subject
9 countries gained in this market over three times the amount
10 of units that the Mexicans lost during that period so it's
11 certainly not a displacement of Mexican material.

12 During that time the market, well I have the total
13 import numbers not the total market numbers.

14 On this opening price point issue, this is
15 interesting. We look at it essentially as another name for
16 underselling. It's just the point at which significant
17 price competition begins.

18 Mr. Loeb commented, for example, that the U.S.
19 producers are moving up as they have gone from the smaller
20 screen sizes into the larger screen sizes and projections
21 and so forth. Yeah. That's the point. The domestic
22 producers are continually squeezed out of the market by the
23 price competition from the Chinese and the Malaysians and
24 they've had to move up into other segments of this broad
25 spectrum. That's exactly what's gone on, and they've been

1 squeezed out of the 25, 27 V, 25, 27 inch category because
2 of the price competition.

3 A comment about the features that are provided i
4 the price competition. There are a number of comments that
5 were made about the PIP, the picture in picture feature. I
6 have that on a couple of my sets at home. I was surprised
7 to learn this morning that that feature costs about \$10 to
8 put in a television set. So it's an interesting feature but
9 it really doesn't differentiate substantially in terms of
10 the cost of producing the product.

11 Wal-Mart's comments about how the market is
12 structured and who sells to them and who doesn't were very
13 interesting, and I have some views about maybe why some
14 companies don't sell to Wal-Mart and we'll think some more
15 about this in the post-conference brief.

16 The price competition to sell to Wal-Mart in a lot
17 of products, we represented the bicycle industry a few years
18 ago which is gone. The price competition is horrendous.
19 And I think it's probably the case that a number of
20 producers may choose not to sell to Wal-Mart because they
21 can't. They can't meet the price competition. That's
22 really what this case is all about.

23 In any event, this case was not filed against Wal-
24 Mart or any other mass merchandiser. The purpose of this
25 case, as you well recognize, is to try to restore fair

1 pricing to the marketplace in the United States so that the
2 domestic producers can compete under fair conditions.
3 That's what it's all about, regardless of who the customers
4 are.

5 We appreciate your patience on the day before
6 Memorial Day weekend. Thank you very much.

7 MR. CARPENTER: Thank you, Mr. Hartquist.

8 MR. CONNELLY: I guess I'll go first. I just have
9 a couple of brief remarks.

10 Let's talk about what Mr. Hartquist said about
11 Funai being a niche player. There's no question that's
12 true. There's no question that the position they occupy in
13 the market today is exactly the same position that they
14 occupied in the market when they first entered it in the mid
15 1980s, that is at the opening price point level. There has
16 been no change. None whatsoever. Nothing the Petitioners
17 said this morning indicated to the contrary.

18 When you look at the questionnaire data, not
19 simply from Funai but from those who directly import from
20 Funai who have filed their own importer questionnaires,
21 you'll see that the overwhelming majority of these sets that
22 Funai makes in Malaysia are Product 1. That is our niche,
23 OPP, Product 1.

24 Yes, there are some, very small volumes of other
25 products. But overwhelmingly, Product 1. Basic product.

1 On the issue of PIP, \$10 cost. Well, that's the
2 cost maybe. That's not the value. That's not the value to
3 the consumer.

4 Sometimes I look at identical automobiles and it's
5 a \$5,000 difference between a six cylinder and an eight
6 cylinder engine. I doubt that's the cost. It's the value.
7 It's what the consumer perceives is the extra value. That's
8 what's important and that's what our presentation was all
9 about today.

10 As to the press release about Funai being named
11 one of a very few vendors of the year because they
12 contributed to the growth of Wal-Mart's business. That's
13 precisely our point. That's the point of what Dr. Button
14 said about how a promotional sale can expand the market, can
15 draw new consumers into the store. That's how Wal-Mart
16 sells \$1.4 billion of merchandise on the day after
17 Thanksgiving. They draw consumers into the store with
18 promotional items. That's a perfectly great reason to name
19 Funai Vendor of the Year.

20 As far as the Mexican facility, we'll give you the
21 confidential information about what went on in Mexico. That
22 claim is way off base if for no other reason than the only
23 thing, I believe, and I'll verify this. I believe the only
24 thing that Funai manufactured in Mexico for a very short
25 period of time was combination units, and I don't think we

1 heard anything from the Petitioners this morning about
2 competition with domestic produce who make combination
3 units. Yes, there are a couple who do. But again,
4 different price points.

5 Finally, I want to try and contrast the
6 presentation that the Petitioners made this morning to ours.
7 I think it's fair to say that their approach to analyzing
8 the CTV market was an extremely broad and superficial one.
9 It talks about import volumes in the abstract. It doesn't
10 differentiate between brand preferences. It doesn't
11 differentiate between feature preferences. It doesn't take
12 into consideration the value that consumers attach to
13 certain brands. That's what you do when you really don't
14 want the Commission to look very carefully in the
15 preliminary stage. All you want to do is try and get over
16 the hurdle. I would submit to you, we have a very powerful
17 case as Ham said earlier, for a negative preliminary
18 determination. But that case can only be as good as we can
19 get you to look beyond the Petitioners superficial
20 presentation and get into at this point these differences
21 we've talked about.

22 I think we have the ability at least with respect
23 to Malaysian import volumes, to give you an extremely
24 complete set of information about the sales of which you've
25 heard there were very few during the period of

1 investigation, and to identify the competition, and to
2 identify who was affected, if anyone. IF we can get you to
3 look beyond these broad assertions. If we can get you to
4 realize that you just can't compare the average price of
5 domestic Product 1 to the average price of Malaysian imports
6 of Product 1, then we are going to get a much more realistic
7 and a much more accurate picture of what is going on in the
8 domestic market during the period of investigation. That
9 picture we submit is going to show you that there was not
10 the slightest impact on any domestic producer with the
11 possible exception of one, and we're not even saying there's
12 an impact. All we're saying is we believe there was some
13 competition. We'll have to wait to get that questionnaire
14 response to see if they think there was an impact.

15 Thank you.

16 MR. LOEB: Hamilton Loeb again for the Chinese
17 Respondents.

18 Mr. Connelly has said two of the things I wanted
19 to say so I'll limit my rebuttal comment to just one item
20 and that's just to clarify so that the record is not
21 confused on it.

22 Mr. Hartquist referred to a comment of mine about
23 the domestic producers as he characterized it being squeezed
24 out of the market and moving up market. And he was
25 associating that comment with movement into the 25 and 27

1 inch models. That's not at all what I was saying.

2 Since we're all consumers here I'd just ask those
3 of you who have already indicated that you've been in this
4 market recently to think about what brands like Samsung and
5 Sanyo and Daewoo connoted as recently as a few years ago and
6 how successfully those brands have moved, and that's the
7 movement I'm referring to. Moved up market, meaning not in
8 size but moved out of the opening price point category and
9 moved into the middle tier to become brands with power at
10 that middle tier level. That's the movement that I was
11 referring to when I made that comment.

12 Thank you very much.

13 MR. CARPENTER: Thank you Mr. Connelly and Mr.
14 Loeb.

15 For those of you who are APO parties I've been
16 informed that the APO release is ready for pickup if you can
17 stop by on your way out.

18 Let me just run down a few key dates.

19 The deadline for both the submission of
20 corrections to the transcript and for briefings in the
21 investigation is Thursday, May 29th. If briefs contain
22 business proprietary information, a non-proprietary version
23 is due on May 30th. The Commission has scheduled its vote
24 on the investigation for June 16th at 2:00 o'clock and will
25 report its determination to the Secretary of Commerce later

1 that day. Commissioners' opinions will be transmitted to
2 Commerce a week later on June 23rd.

3 This conference is adjourned.

4 (Whereupon, at 1:35 p.m. the conference was
5 adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Color Television Receivers
INVESTIGATION NO.: 731-TA-1034 and 1035 (Preliminary)
HEARING DATE: May 23, 2003
LOCATION: Washington, D.C.
NATURE OF HEARING: Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: May 23, 2003

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Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

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I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

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