

ADDITIONAL APPEARANCES:IN SUPPORT OF THE IMPOSITION OF ANTIDUMPING
DUTIES:

JOHN BASSETT
Chairman
Steering Committee of the American Furniture
Manufacturers, Committee for Legal Trade, and
President and CEO of Vaughan-Bassett Furniture
Company

IRWIN ALLEN
President and CEO
Michels-Pillioid Company

STEVEN KINCAID
President
La-Z-Boy Casegoods Group;
Kincaid Furniture Company

DAVID SOWINSKI
Chief Strategy Implementation Officer
La-Z-Boy, Inc.

ROBERT SPILMAN, JR.
President and CEO
Bassett Furniture Industries

WILLIAM VAUGHAN
President and CEO
Vaughan Furniture Company

WYATT BASSETT
Executive Vice President
Vaughan-Bassett Furniture Company

KEN LORING
President and CEO
Boston Interiors

HAROLD BROWN
General Manager
Bassett Furniture Direct

ADDITIONAL APPEARANCES:IN SUPPORT OF THE IMPOSITION OF ANTIDUMPING DUTIES:

HAROLD HEWITT
President
Superior Furniture

JOSEPH DORN, Of Counsel
King & Spalding, LLP
Washington, D.C.

STEPHEN A. JONES, Of Counsel
King & Spalding, LLP
Washington, D.C.

STEPHEN J. NARKIN, Of Counsel
King & Spalding, LLP
Washington, D.C.

IN OPPOSITION OF THE IMPOSITION OF ANTIDUMPING DUTIES:

WILLIAM P. KEMP III
President
Kemp Enterprises, Inc.

JOHN D. GREENWALD, Of Counsel
Wilmer, Cutler & Pickering
Washington, D.C.

JEFFREY SEAMAN
President and CEO
Rooms To Go, Inc.

JAMES MCALISTER
Operations Manager, Quality and Sourcing
JCPenny Purchasing Corporation

JOHN G. REILLY
Consultant
Nathan Associates, Inc.

ADDITIONAL APPEARANCES:IN OPPOSITION OF THE IMPOSITION OF ANTIDUMPING
DUTIES:

WILLIAM SILVERMAN, Of Counsel
Hunton & Williams, LLP
Washington, D.C.

JAMES R. SIMOES, Of Counsel
Hunton & Williams, LLP
Washington, D.C.

LYNN CHIPPERFIELD
Senior Vice President and Chief
Administrative Officer
Furniture Brands International, Inc.

MARTY RICHMOND
Manager of Corporate Communications
Furniture Brands International, Inc.

KEN SHANKS
President
Furniture Brands International Import
Service Organization

JILL A. CRAMER, Of counsel
Bryan Cave, LLP
Washington, D.C.

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P R O C E E D I N G S

(9:49 a.m.)

1
2
3 MR. CARPENTER: Good morning and welcome to
4 the United States International Trade Commission's
5 conference in connection with the preliminary phase of
6 antidumping investigation No. 731-TA-1058 concerning
7 imports of wooden bedroom furniture from China.

8 My name is Robert Carpenter. I am the
9 Commission's Director of Investigations and I will
10 preside at this conference.

11 Among those present from the Commission
12 staff are, from my far right: George Deyman, the
13 supervisory investigator; Fred Fischer, the
14 investigator; on my left, Neal Reynolds, the
15 attorney/advisor; Jerry Benedick, the economist; and
16 Josephine Spalding-Masgarha, the industry analyst.

17 The purpose of this conference is to allow
18 you to present your views with respect to the subject
19 matter of the investigation in order to assist the
20 Commission in determining whether there is a
21 reasonable indication that a U.S. industry is
22 materially injured or threatened with material injury
23 by reason of imports of the subject merchandise.

24 We will start the conference with a five-
25 minute opening statement from each side, beginning

1 with the petitioners. Following the opening
2 statements, each side will be given one hour for their
3 direct testimony. The staff will ask questions of
4 each panel after their presentation, but no questions
5 from opposing parties will be permitted. At the
6 conclusion of the statements from both sides, each
7 side will be given 10 minutes to rebut opposing
8 statements and make concluding remarks.

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

14 Additionally, speakers are reminded not to
15 refer in their remarks to business proprietary
16 information and to speak directly into the
17 microphones.

18 Finally, we ask that you state your name and
19 affiliation for the record before you beginning your
20 presentation.

21 Are there any questions?

22 (No response.)

23 MR. CARPENTER: If not, welcome, Mr. Dorn,
24 please proceed with your opening statement.

25 MR. DORN: Joe Dorn with King and Spalding.

1 This case is about a billion dollars of
2 dumped imports from China that has displaced thousands
3 of U.S. jobs and closed dozens of U.S. factories.
4 Unless the dumping is stopped, the job losses and
5 factory closings will continue, and another U.S.
6 industry will be destroyed by Chinese imports.

7 The article subject to investigation is
8 wooden bedroom furniture. It is commonly designed,
9 produced, and exported from China as bedroom suites.
10 It is imported into the United States and merchandised
11 as bedroom suites, as shown on the slide.

12 A typical suite includes a bed, a night
13 stand and a dresser with mirror. Larger suites might
14 include a chest or armoire.

15 The domestic like product is wooden bedroom
16 furniture, which also is commonly designed, produced,
17 and sold as bedroom suites. The competition between
18 domestic and imported product is suite to suite, not
19 piece to piece. The domestic like product includes a
20 continuum of products in quality and price points. At
21 every point along the continuum there is a match
22 between domestic product and dumped product from
23 China. There is no market niche where U.S. producers
24 can hide.

25 The Chinese industry is huge, with thousands

1 of factories, and it is rapidly expanding. Its
2 growing output is aimed squarely at the U.S. market,
3 which accounts for over half of China's exports to the
4 world. Many of its bedroom suites are copies of the
5 most popular U.S. designs.

6 The dumping margins in this case are
7 egregious, averaging about 250 percent for a five-
8 piece suite. The Chinese are using its unfair price
9 advantage to undersell U.S. product by large margins
10 in order to grab market share in the United States.

11 Our witnesses this morning will explain how
12 their companies have been injured by reason of the
13 dumped imports, but the aggregate data tell the story
14 better in this case than in any other cases I have
15 seen.

16 From 2000 to 2002, dumped imports jumped 121
17 percent, or by over half a billion dollars. From the
18 first half of 2002 to the first half of 2003, dumped
19 imports jumped another 54 percent, or by another
20 quarter billion dollars.

21 These increased imports have ended up in
22 furniture dealer showrooms across the United States.
23 Accordingly, U.S. producers have lost thousand of
24 bedroom slots on furniture dealers' showrooms to lower
25 priced imports from China.

1 The dumped imports have rapidly increased
2 their share of the U.S. market from under 10 percent
3 in 2000 to over 25 percent in the first half of 2003.
4 Notwithstanding the large number of plant closings
5 since January 2000, this industry's capacity
6 utilization rate was still under 70 percent in the
7 first half of this year.

8 The \$1 billion in low-priced imports from
9 China has seriously depressed pricing in the United
10 States market. Due to the imports' pervasive
11 underselling of domestic bedrooms, domestic producers
12 have been unable to increase prices even as their
13 production costs have increased.

14 The combination of lost sales, lower
15 capacity utilization, and depressed pricing has been
16 devastating to the bottom line. Petitioners lost more
17 than half of their operating income from 2000 to 2002.
18 They lost another half of their operating income from
19 the first half of 2002 to the first half of 2003.

20 Faced with declining market share and
21 capacity utilization, many U.S. producers have
22 themselves been forced to import from China to avoid
23 further lost sales. Increasingly, however, their
24 customers are importing directly from China or
25 purchasing from large importers that inventory Chinese

1 products on both coasts of the United States.

2 In fact, the largest retailers who import
3 directly from China are desperate to win this case
4 because they have built their business models on
5 unfairly priced imports. They have said that they
6 will raise more money than Howard Dean to defeat us.
7 They have threatened to stop buying from any U.S.
8 producer that supports the petition.

9 Bottom line, however, the vigorous
10 opposition of the retailers just underscores the
11 obvious fact that dumped imports from China are
12 displacing domestic products from retailers' bedroom
13 slots.

14 That would be okay if the Chinese prices
15 were fair, but they are not, as the Commerce
16 Department will surely confirm.

17 The handful of U.S. companies that oppose us
18 include companies that still produce furniture in the
19 United States, but have become increasingly dependent
20 on their Chinese suppliers. They have largely given
21 up on the future of their U.S. assets and production
22 employees. Their primary interest is now importing.

23 Furniture Brands, for example, which has
24 been closing plants left and right, has told Wall
25 Street that its future is in Asia, not the United

1 States.

2 Petitioners, however, do not want to become
3 merchandisers for the Chinese. They want to preserve
4 their U.S. assets. They want to maintain their U.S.
5 jobs. They can do so if the dumping is stopped.

6 Thank you.

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

8 Mr. Greenwald, please come forward.

9 MR. GREENWALD: I'm going to bring Mr. Levy
10 up in case I forget something, and he will, with your
11 indulgence, remind me.

12 MR. CARPENTER: Welcome.

13 MR. GREENWALD: Thank you.

14 When I come up to the Commission and speak
15 to you all, I try to be circumspect in what I say. In
16 this particular case, however, there is only one word
17 to describe the petition that has been filed, and that
18 is, fraud. It's a fraud in its allegations of dumping
19 margins, and it's a fraud in its allegation of injury.
20 Let me start with the parts that's of least interest
21 to the Commission, and that's the dumping margin.

22 When Mr. Dorn says margins are 100 and some
23 odd percent, it is based on an analysis of imports
24 that have unrepresentatively low prices, i.e., are not
25 the norm, and it is based on a representation of cost

1 that the petitioners themselves know to be untrue
2 because they buy from the Chinese factories that they
3 accuse of dumping.

4 The margin calculation is predicated on
5 Indian market prices for woods that is taken off of
6 some import data when in fact the Chinese mills that
7 are the subject of this petition make their furniture
8 from wood purchased in the United States and from
9 other market economy countries.

10 Now let me turn to the part of the petition
11 that's of direct interest to you, and that is the
12 allegations of dumping -- I'm sorry -- of injury and
13 causation.

14 Imports from China have indeed increased,
15 but so too have imports from Vietnam, from Thailand,
16 and from Brazil, all at a faster pace. And if you
17 look at the 1993 surge in imports from these other
18 countries, I guarantee you you will find that these
19 other countries are importing because petitioners have
20 abandoned China as a market, and are trying to set up
21 plants -- trying to set up supply arrangements in
22 these third countries.

23 There are key questions that you have to ask
24 yourselves as you hear this testimony on both sides
25 today. The first is what is driving the rise in

1 imports. The answer is fundamental economics,
2 including cost of labor differentials. Simply put, if
3 a company wants to make an intricate bedroom set that
4 has carvings and inlays, the cost of labor in the
5 United States is prohibitive, and in order to
6 supplement products that can be produced economically
7 in the United States all major domestic producers,
8 including petitioners, have gone offshore.

9 Second, there is the issue of the economics
10 of the market. Purchases of bedroom suites are
11 discretionary. A consumer has a choice between buying
12 new bedroom furniture, new dining room furniture, a
13 new car, or a stereo, and that decision is made by
14 consumers that assess value for money. It's a choice.

15 The notion that the domestic industry can
16 simply increase prices and find that they do not
17 decrease demand is in economic terms preposterous.

18 A third question that you have to ask
19 yourself is are the imports from China harming the
20 U.S. industry or are U.S. producers profiting from
21 those imports.

22 If you look at the financial statements,
23 including the most recent financial statements on some
24 petitioners, you will see that they are reporting
25 record earnings, and that they are attributing their

1 record earnings to their import operations.

2 Finally, you have to ask yourselves what is
3 to me a key, if not the key question, and that is,
4 will trade restraints on imports from China do
5 anything except shift sourcing to even lower priced
6 imports from non-subject countries.

7 We will have testimony today from retailers
8 and from other domestic producers that oppose the
9 petition saying that when the retailers or these other
10 domestic producers travel through Asia they are
11 bumping into purchasing agents of petitioners. We
12 will have dramatic testimony, unwitting frankly, in
13 the form of statements made by petitioners that show
14 they have no intention whatsoever of bringing back to
15 the United States production of suites that cannot
16 economically be made in the United States because they
17 are far too intricate to make them officially.

18 There are other issues that we will raise in
19 the testimony. One of the things you will find is
20 that careful analysis of quality shows a dramatic
21 difference between the quality of imported items and
22 the quality of domestic production. That is a non-
23 price factor that has had a significant impact on the
24 domestic industry's business, and it is a non-price
25 factor that, frankly, they are going to have to take

1 care of.

2 But when you shift through the testimony,
3 when you listen to the U.S. producers that oppose the
4 petition because it makes no economic sense, retailers
5 that oppose the petition because it makes no economic
6 sense, I hope you come to the same conclusion that I
7 have reached; that is, not only is the dumping margin
8 allegation based on information that petitioners know
9 to be untrue, but the injury and causation allegations
10 are equally hypocritical and ultimately fraudulent.

11 Thank you.

12 MR. CARPENTER: Thank you, Mr. Greenwald.

13 Mr. Dorn, if you want to bring up your panel
14 at this time.

15 MR. J. BASSETT: Good morning. My name is
16 John Bassett. I am the President and CEO of Vaughan-
17 Bassett Furniture Company, and the Chairman of the
18 Committee for Legal Trade.

19 I have been involved in the bedroom
20 furniture business for 41 years. I am a former
21 president of the American Furniture Manufacturers
22 Association.

23 The Committee for Legal Trade has 27 member
24 companies that produce bedroom furniture in the United
25 States. Together, we operate over 50 factories in at

1 least 14 states. Our 27 companies alone have been
2 forced to close 16 plants and layoff roughly 4,000
3 employees since January 2000. From 2000 to 2002, our
4 collective sales, production, and employment each fell
5 roughly 20 percent, and our collective profits
6 plummeted as imports from China jumped 121 percent.

7 These downward trends continue during the
8 first half of 2003, as imports from China jumped
9 another 54 percent.

10 China accounts for virtually the entire
11 increase in United States imports since 2000 as shown
12 on the slide. The United States has received more
13 imports from bedroom furniture from China in the first
14 nine months of this year alone than we did in all of
15 2002. About half of all imports of bedroom furniture
16 now comes from China.

17 When it comes to imports of bedroom
18 furniture, China is the 800-pound gorilla. No other
19 country comes close.

20 Exhibit 32 of our petition lists over 45
21 factories that have closed in the bedroom industry
22 since January 2000. Exhibit 33 lists 28 trade
23 adjustment assistance certifications. For each
24 certification, the Department of Labor found that the
25 increase of imports contributed importantly to the

1 layoff of workers in the plants making bedroom
2 furniture.

3 Our declining conditions is due to one
4 reason and one reason only -- dumped imports from
5 China have surged in the United States at lower and
6 lower prices. It has nothing to do with the recent
7 recession.

8 Housing activity, which largely dictates
9 demand for bedroom furniture, has been strong since
10 January 2000. According to the American Furniture
11 Manufacturers Association, the sales value of all
12 residential furniture increased from 2000 to 2002.
13 According to Furniture Today, the industry's
14 newspaper, the sales volume of bedroom furniture
15 increased nine percent from 2001 to 2002.
16 Unfortunately, bedroom-specific numbers were not kept
17 until 2001.

18 Based on these facts, it is clear that the
19 demand for bedroom furniture units has increased in
20 quantity since 2000. However, due to price deflation
21 caused by the unfairly priced imports, demand for
22 bedroom measured in dollars probably increased only
23 slightly, if at all, during this time.

24 Our petitioning companies have invested
25 heavily to reduce their production costs. The dumped

1 imports, however, have destroyed anticipated returns
2 on these investments. The imports reduced our market
3 share, diminished our capacity utilization, and
4 depressed our prices and our cash flow.

5 Our predicament is so dire that it makes no
6 sense to continue investing unless and until the
7 dumping is stopped.

8 Frankly, we have had enough. We truly feel
9 a duty to our remaining employees and to do everything
10 we can to stop the bleeding. We are here to petition
11 the government to enforce our trade laws and stop the
12 illegal pricing of import wood bedroom furniture from
13 China. We do not want protection against fairly
14 traded good. We do not ask for quotas or other
15 safeguards. We welcome global competition and
16 international trade, and we understand that only the
17 strong will survive.

18 But selling at dumped prices is not
19 strength; it's exploiting an unfair advantage. The
20 Chinese are masters of the art not only in furniture,
21 but in the over 50 other cases where antidumping
22 orders have already been imposed.

23 We simply want the law applied as it has
24 been with other industries, thereby allowing us to
25 compete on a level playing field.

1 The Chinese are rapidly expanding capacity
2 as we speak. That increased capacity is aimed at the
3 bedroom slots that our petitioning companies still
4 maintain.

5 Ladies and gentlemen, we desperately need
6 your help before it's too late. Thank you.

7 MR. KINCAID: Good morning, my name is Steve
8 Kincaid. In addition to being President of Kincaid
9 Furniture, I am President of the La-Z-Boy Casegoods
10 Group. I am responsible for five La-Z-Boy companies
11 that produce wooden bedroom furniture in the United
12 States.

13 I've been involved in the wooden bedroom
14 furniture industry since 1970, when I started working
15 as a sales representative for Kincaid Furniture
16 Company. I am the current President of the American
17 Furniture Manufacturers Association. Our testimony is
18 offered this morning on behalf of my company and its
19 workers, and not on behalf of the AFMA.

20 La-Z-Boy is a publicly traded company with
21 over \$2 billion in annual sales. Our Casegoods Group
22 currently produces wooden bedroom furniture in six
23 plants located in North Carolina, Pennsylvania,
24 Virginia, and Tennessee.

25 Imports of cheap bedroom groups from China

1 have seriously injured our bedroom production
2 operations and workforce. From January 2000 to June
3 2003, we were forced to close five factories that made
4 bedroom furniture. Those plant closures eliminated
5 over 1,900 jobs. The job losses occurred in
6 communities that were already suffering from very high
7 employment rates.

8 Our five companies producing bedrooms covers
9 substantially all the market segments in a broad range
10 of price points. All have been adversely affected by
11 the import surge from China. The imports match up
12 closely with our products in terms of raw material,
13 construction, and design. In fact, there are numerous
14 imports that are copies of successful U.S. design
15 bedroom groups.

16 Let me give you a brief overview of our
17 companies and how they have been injured by unfairly
18 priced imports from China. I'll group them in three
19 end-use market segments: youth bedroom, hospitality
20 and adult bedroom.

21 Lee Industries, founded in 1969, and located
22 in Morristown, Tennessee, is a leading manufacturer of
23 moderately-priced youth bedroom furniture. Demand has
24 been relatively strong in the youth bedroom segment
25 since January 2000, and several retailers have been

1 opening free-standing youth stores.

2 Nevertheless, because of these low-priced
3 imports from China Lea has had to close three
4 manufacturing plants, and eliminate 850 jobs from
5 January 2000 to June 2003. La-Z-Boy had restructuring
6 charges of approximately \$15.5 million as a result of
7 these plant closings.

8 America of Martinsville, founded in 1906,
9 and located in Martinsville, Virginia, is the leading
10 supplier of U.S. bedroom furniture for the lodging and
11 senior housing market. In addition to selling our
12 standard product line, we produce custom products
13 meeting individual requirements.

14 Unlike the residential market, demand in the
15 lodging industry has declined since January 1, 2000,
16 as a result of the weak economic environment.

17 Increased imports from China have taken the
18 largest share of the declining market. Large, one-
19 time custom projects for four- and five-star hotels
20 and repetition in-land programs for national chains
21 have both been equally impacted by low-priced imports
22 from China.

23 Since January 1, 2000, America of
24 Martinsville has lost multimillion dollar, high-
25 profile custom hotel projects to importers of Chinese

1 bedrooms. Examples include: Venetian Hotel in Las
2 Vegas, Nevada, and the Marriott Hotel Desert Ridge, as
3 well as many other hotel projects. Major national
4 chains such as Hilton Garden Inn, Courtyard by
5 Marriott, Residence Inn by Marriott, and others have
6 moved offshore due to the availability of dramatically
7 lower-priced Chinese bedrooms.

8 Imports from China have also forced America
9 of Martinsville to lower prices to keep its remaining
10 business. The development of the new guest room
11 program for the Courtyard by Marriott is a prime
12 example of the adverse effects of unfairly priced
13 imports.

14 This program was essentially completed in
15 November 2001 through a design partnership we
16 developed with Marriott International. America of
17 Martinsville was awarded the program in November 2001,
18 subject to continued price negotiations.

19 Since that time, and due primarily to the
20 introduction of low-cost Chinese product from
21 competitors, final pricing has been reduced by over 25
22 percent.

23 Our other La-Z-Boy companies that produce
24 adult bedroom furniture have experienced similar
25 damage from dumped imports.

1 Pennsylvania House, founded in 1887, and
2 located in Lewisburg, Pennsylvania, produces bedrooms
3 made primarily of solid hardwoods with traditional
4 designs.

5 American Drew, founded in 1927, and located
6 in North Wilkesboro, North Carolina, produces medium-
7 to upper-medium priced bedrooms for the residential
8 market.

9 Kincaid Furniture, founded by my grandfather
10 in 1946, and located in Hudson, North Carolina,
11 produces bedrooms made primarily of solid hardwoods.

12 These three companies all sells in the
13 residential market, which have grown since January
14 2000 given low mortgage rates and record home sales.
15 Their declining sales and production are attributable
16 to the import surge from China, not a weak economy.

17 None of our five companies have a market
18 niche or product line that is insulated from the
19 unfairly priced imports.

20 The Chinese producers have enormous capacity
21 that is growing rapidly. They are extremely
22 aggressive and are using their low prices to take away
23 every segment of our business. They low-priced
24 imports have resulted in lost market share, price
25 deflation, less domestic production, and significantly

1 lower profits. This has had a devastating effect on
2 our people as well as our communities.

3 I should emphasize that our companies have
4 invested heavily in our U.S. production facilities to
5 make them as cost effective as possible. For example,
6 we invested over \$40 million in equipment and R&D in
7 the last three fiscal years. The imports from China,
8 however, have taken away our anticipated returns from
9 this investment.

10 In order to protect our customer base and
11 market share, each of our companies has been forced to
12 import from China to take advantage of the low import
13 prices. We have analyzed the cost to produce certain
14 bedrooms in the U.S. plants versus the cost to import
15 the bedrooms from China.

16 Unfortunately, the low import prices have
17 forced us to import rather than to produce
18 domestically in many instances.

19 Our blended import strategy, however, will
20 not save our U.S. factories and our U.S. jobs unless
21 the unfair pricing is stopped. There are several
22 reasons.

23 First, the Chinese prices are so low that it
24 is becoming increasingly difficult to find any product
25 that we cannot source more cheaply from China than we

1 can produce in our own plants. Eventually, the
2 cumulative impact of numerous buy versus make
3 decisions will take so much production out of our
4 remaining plants that we will be forced to close
5 additional factories and lay off additional employees.

6 Second, if we do not source from China, our
7 customers will do so directly. In fact, over the last
8 several years retailers and hotels have been rapidly
9 shifting to direct imports from China. The Chinese
10 factories are bypassing us and going straight to our
11 long-time customers.

12 Third, large U.S. marketing organizations
13 are importing Chinese bedrooms either to inventory in
14 the U.S. for resale or to ship directly from Chinese
15 factories to their U.S. customers.

16 La-Z-Boy, like Furniture Brands, has a
17 global sourcing group. We source products from all
18 over the world, and are committed to global sourcing
19 as an important component of our long-term strategy.

20 Some report that there is dumping in China,
21 but rationalize that it is not necessary to correct
22 this illegal activity, this production will only move
23 to other countries such as Vietnam. Further, they
24 argue that even if duties are imposed on bedrooms from
25 China, U.S. jobs will not be created. I passionately

1 believe that this is not true for the following
2 reasons.

3 First, China, a non-market economy, has a
4 tremendous advantage over countries such as Indonesia,
5 the Philippines, and Malaysia due to currency fixes
6 and subsidies. These dynamics have enabled explosive
7 growth in Chinese capacity and only modest growth in
8 the other Pacific Rim countries. In fact, as a
9 domestic industry is operating at less than 70 percent
10 capacity, the United States is the only country
11 capable of absorbing Chinese volume.

12 Second, Vietnam as an alternative source to
13 China does not currently have the infrastructure to
14 handle a significant short-term growth.

15 Finally, if appropriate dumping duties are
16 imposed on Chinese bedroom furniture, our
17 domestically-made products will become more
18 competitive. This will allow us to eliminate short-
19 time in our facilities, hire additional workers, and
20 more effectively utilize our capacity.

21 Increased capacity utilization in the U.S.
22 will enable us to be more efficient and continue to
23 enhance our global competitiveness.

24 To put it in perspective, Kincaid Furniture
25 for the first 55 years of its 57-year history has been

1 a growing and prosperous company that has successfully
2 competed in a very competitive industry. During that
3 period we have provided a livelihood for thousands of
4 employees and helped build a thriving community.

5 During the last two years, Kincaid has
6 struggled to remain competitive due to pricing
7 pressures from China. I recently showed a bedroom
8 suite to one of the top retailers in America. His
9 reaction, why should I buy this suite that is made
10 domestically from you. He claimed that buying a
11 comparable imported suite from China he could sell it
12 at retail for the wholesale price I was quoting.

13 Clearly something has changed in the last
14 several years, and it does not appear that we are on a
15 fair and level playing field.

16 The Chinese are not beating us with better
17 quality, better design, or better service. Their
18 factories are beating us with unfair prices. All we
19 ask is that the Chinese price their product fairly.
20 When they do, we believe we can compete successfully
21 with fairly traded imports.

22 Thank you.

23 MR. SPILMAN: Good morning. My name is Rob
24 Spilman. I am President and CEO of Bassett Furniture
25 Industries, which is headquartered in Bassett,

1 Virginia.

2 The company was founded by my great
3 grandfather in 1902, and my father was president and
4 CEO of the company from 1982 to 1997. Bassett
5 recently celebrated its 100-year anniversary. I have
6 been employed by Bassett since 1984, and I have been
7 President and CEO since 2000.

8 I am President-elect of the American
9 Furniture Manufacturers Association. Like Steve
10 Kincaid, however, my testimony today is offered on
11 behalf of my company and its shareholders and our
12 employees, not on behalf of the AFMA.

13 Bassett is a publicly traded company with
14 \$323 million in sales in 2002. Bassett has
15 manufactured wooden bedroom furniture in the United
16 States since its founding over 100 years ago. Wooden
17 bedroom furniture is Bassett's heritage.

18 We have always focused on bedrooms, and have
19 been fortunate to produce some of the most popular
20 designs in the industry. Over the years we have sold
21 more bedrooms than any other type of furniture.
22 Currently, about one-third of our total sales of \$323
23 million is bedroom furniture.

24 We operate two plants that product bedrooms
25 in the United States, employing about 800 workers.

1 Bassett is one of the largest domestic producers of
2 bedrooms.

3 I am here today because our long and proud
4 heritage as a U.S. manufacturer is in grave, grave
5 jeopardy. Increased imports from China since 2000 has
6 severely injured our business, causing us to lose
7 sales and market share, and resulting in the closing
8 of two plants in Bassett, Virginia in early 2001, and
9 one plant in Dublin, Georgia in the spring of 2003.

10 Bassett took restructuring charges of
11 approximately \$11 million as a result of these plant
12 closings. These closings resulted in the lay off of
13 651 workers. The Department of Labor certified these
14 workers for trade adjustment assistance benefits based
15 on an investigation confirming that the layoffs were
16 caused by import competition.

17 Our production and sales have declined
18 significantly since 2000 as some of our biggest
19 customers have switched to imports from China. As a
20 result of the increased imports, our production assets
21 are underutilized and our return on investment has
22 suffered. Our per unit fixed costs are rising which
23 has hurt our profitability. If the current trends
24 continue, we will no longer be able to produce bedroom
25 furniture in the United States.

1 There is no question that imports from
2 China, not weak demand, is the cause of Bassett's
3 injury. Demand for furniture depends in large part on
4 the housing industry. When sales of new and existing
5 homes are strong, the bedroom furniture industry is
6 benefitted. Since January 2000, the housing market
7 has been quite strong, performing at historically high
8 levels.

9 Despite strong demand, the influx of
10 unreasonably priced Chinese imports have forced
11 Bassett and other domestic manufacturers into plant
12 closings and layoffs.

13 The issue is price, not quality or service.
14 An excellent example of this is our lost sales to our
15 long-time customer, JCPenny. JCPenny and Bassett have
16 had a special business relationship since 1976.
17 Bassett historically has been Penny's number one
18 wooden bedroom furniture supplier and was designated
19 by Penny "Furniture Supplier of the Year" in 1999.

20 Also, in 1999, Bassett and Penny celebrated
21 reaching \$1 billion in Bassett furniture shipments to
22 Penny. We had a big party in Dallas, near Penny's
23 Plano headquarters to commemorate the occasion.

24 Since then, however, Penny has decided to
25 replace Bassett's domestically-produced bedrooms with

1 imports and, as far as I know, all of the imports are
2 from China. The rapid decline in our sales of
3 domestic bedroom furniture to JCPenny is astonishing.

4 In 2000, we sold about \$26 million in
5 bedrooms to Penny. That declined to 20 million in
6 2001, 9 million in '02, and 4 million in 2003. In
7 2004, our sales of domestic bedrooms to JCPenny will
8 be zero. Thus, in four short years imports from China
9 have taken all of Bassett's bedroom business with
10 Penny, declining from about 20 percent of Bassett's
11 total sales of domestic bedrooms to zero.

12 We did everything within our power to try to
13 keep this business. When Penny told us the price was
14 too high, we redesigned the products to lower the cost
15 and enable us to offer a lower price. In fact, we
16 reduced the price of the largest volume unit, suite
17 unit sold to Penny by 33 percent.

18 When we bid for Penny's slots during the
19 summer of 2002, however, Penny told us we were not
20 even in the ball game even at prices reduced by 33
21 percent.

22 Based on the far lower prices of imports
23 from China, Penny decided to drop our best selling
24 style. Here you see the virtually identical products,
25 the replacement product on top, and our former product

1 that we sold Penny's below which was, of course,
2 domestic.

3 Penny has never told Bassett that it had any
4 concerns about our quality or service when discussing
5 replacing our product with imports. In fact, for many
6 years because of the importance of the Penny account
7 to our overall business, we assigned several employees
8 to service Penny on an exclusive basis. We kept a
9 constant inventory of merchandise sold to Penny, and
10 shipped to them instantaneously. We assigned separate
11 SKUs for merchandise that was sold to them. The only
12 reason we have lost this business to imports from
13 China is price.

14 In order to ensure the survival of our
15 domestic bedroom manufacturing business, Bassett has
16 developed a network of 101 licensed furniture stores
17 called Bassett Furniture Direct. These stores are
18 located throughout the United States and are intended
19 to sell only products that are made by Bassett.

20 We are planning to open more than 300 of
21 these stores. The cornerstone of this strategy is to
22 offer the consumer an array of home decor room
23 solutions at a popular price. Our domestic bedroom
24 manufacturing process has been totally overhauled in
25 order to support this strategy by offering numerous

1 style, finish, and color options.

2 This retooling has represented millions of
3 dollars of domestic investment and factory layout, new
4 machinery, process enhancement, and information
5 systems. The idea is to compete with the low-priced
6 Chinese products by offering a customized product in a
7 very short time cycle.

8 Unfortunately, the continuous downward
9 spiral of Chinese prices threatens the long-term
10 viability of our stores. As prices deflate, more
11 pressure is being exerted on our ability to
12 domestically produce bedroom products that will make
13 our stores competitive.

14 If our petition is not successful and
15 antidumping duties are not imposed on the imports from
16 China, Bassett will be driven out of production of the
17 high volume mainstream products that are the bulk of
18 the wooden bedroom furniture market. As a result, we
19 will be forced to further reduce our domestic
20 production capacity by closing more plants and laying
21 off even more employees.

22 Domestic production maximizes value for our
23 shareholders and workers. We have state-of-the-art
24 efficient plants and dedicated highly skilled
25 employees. We can compete with anyone if the

1 competition is fair. All we ask is for the
2 opportunity to compete fairly.

3 MR. W. BASSETT: My name is Wyatt Bassett.
4 I am executive Vice President of Vaughan-Bassett
5 Furniture Company. My responsibilities include
6 manufacturing, product development, merchandising, and
7 sales. I have been employed in the furniture industry
8 since 1988. I am currently a member of the Board of
9 Directors of the American Furniture Manufacturers
10 Association.

11 Vaughan-Bassett was founded in 1919 by two
12 of my great grandfathers. We own and operate four
13 plants in the southeastern United States that produce
14 wooden bedroom furniture. These plants are located in
15 Galax and Atkins, Virginia; Sumpter, South Carolina;
16 and Elkin, North Carolina.

17 Our company employs 1,560 people, 1,500 of
18 whom work in our four plants producing wooden bedroom
19 furniture.

20 From the earliest days of the company,
21 Vaughan-Bassett has specialized the production of
22 wooden bedroom furniture. For most of our history, we
23 exclusively manufactured bedroom furniture. In fact,
24 as recently as the year 2000, all four of our current
25 plants were 100 percent bedroom furniture.

1 We manufacture many different types and
2 styles of bedroom furniture, but we concentrate in the
3 mainstream designs such as Louis Phillippe, Shaker and
4 Mission where the majority of bedroom furniture sales
5 are made. We employ three different methods of
6 construction: solid wood, particle board with wood
7 veneers, and print, which is laminates over
8 manufactured wood.

9 Although business lost to dumped imports of
10 bedroom furniture from China has forced us to start to
11 manufacture other types of furniture, such as dining
12 room furniture, currently about 95 percent of our
13 total production is still bedroom furniture.

14 Before I discuss how dumped imports from
15 China have hurt Vaughan-Bassett's business, there are
16 some points about the production, marketing, sales of
17 bedroom furniture that are important to keep in mind.

18 First, substantially all wooden bedroom
19 furniture is designed, manufactured, warehoused,
20 distributed, shipped, marketed, displayed, and
21 promoted at retail in sets or bedroom collections
22 which in the vernacular of the industry are commonly
23 called suites.

24 You can look at almost any manufacturer's
25 catalogue or retail advertisement to see that domestic

1 manufacturers, Chinese producers, importers and U.S.
2 retailers offer and promote their wooden bedroom
3 furniture in suites.

4 Virtually no producer specialize in specific
5 pieces of bedroom furniture. You will not find, for
6 example, night stand manufacturers, nor will you find
7 a night stand department in a retail store. Producers
8 produce entire suites or collections, and retailers
9 promote and display furniture in suites and
10 collections.

11 Second, wooden bedroom furniture is
12 designed, produced, and sold as integrated groups for
13 a reason. Bedrooms require furniture that is used for
14 sleeping, dressing, and storing clothing, and the
15 different pieces of furniture in a suite perform a
16 unique function with respect to these activities.
17 Each piece is integral to and furthers those
18 activities.

19 Third, because wooden bedroom furniture is
20 typically sold as suites, the imported products have a
21 direct and equivalent effect on all items of bedroom
22 furniture comprising a suite. When an imported
23 bedroom suite enters this country, it does not have a
24 different effect on the production of beds than on the
25 production of dressers, for instance.

1 Domestic producers and Chinese producers
2 compete for retailers' slots for bedroom suites, and
3 retailers typically do not mix and match pieces, but
4 rather source an entire suite from one supplier.
5 Therefore, the competition among domestic producers
6 and Chinese producers is suite to suite, not piece to
7 piece. The domestic product is primarily competition
8 for sales to retailers.

9 Specifically, domestic producers and
10 importers all compete for a limited number of bedroom
11 slots in retail stores. Retailers generally fill a
12 slot with a bedroom suite from one supplier, not
13 mixing individual pieces of bedroom furniture from
14 different suppliers.

15 For that reason, the fact that some ultimate
16 consumers of wooden bedroom furniture may buy bedroom
17 furniture by the piece rather than buy the suite is
18 not relevant. It does not change the fact that
19 competition between the subject imports and the
20 domestic like product is for the sale of suites not
21 for the sale of individual pieces.

22 Imports of bedroom suites from China are
23 gaining market share with respect to almost every
24 style at every price point. Our business has been
25 severely injured by imports of all types of bedroom

1 furniture from China. Most of the imports, however,
2 are in the middle of the market, which is right where
3 we are trying to sell.

4 The Chinese strategy is to sell products
5 that are identical from the perspective of the
6 consumer at lower prices. They are unquestionably the
7 price leaders in the market.

8 The Chinese are not trying to be style
9 leaders. For the most part, they simply copy styles
10 designed by others, and capitalize on markets created
11 by others by charging unbelievably low prices. In
12 fact, the only way to determine whether a product is
13 made in the U.S. or made in China is to look at the
14 country or origin marking, if there is one, and if you
15 can find it.

16 The fact is, however, that most consumers do
17 not know or care whether a bedroom suite is made in
18 China or the U.S., because the consumer can see no
19 difference with respect to the quality or style. The
20 consumers only consider is price. Accordingly, the
21 retailers only consideration is price.

22 Under these circumstances, imports from
23 China have quickly gained market share at the expense
24 of the U.S. production.

25 I have traveled to China more than 15 times

1 in the last 10 years. Ten years ago there was
2 relatively little bedroom furniture imported from
3 China. Most of the imports were in dining room tables
4 and chairs, and occasional tables, which could be
5 disassembled prior to shipping to reduce the per unit
6 freight cost.

7 Bedroom case goods, however, such as
8 dressers, night stands, and armoires can't be so
9 easily disassembled prior to shipping and reassembled
10 in the United States. There wasn't much bedroom
11 coming into the United States in the nineties because
12 the cost of freight was prohibitive, the price points
13 for the Chinese were capable of competing.

14 As Chinese manufacturing improved in the
15 late nineties, however, they were able to produce
16 higher quality bedroom products that could compete at
17 higher price points. This made exports of bedroom
18 furniture to the United States more economical. Thus
19 the Chinese initially impacted the bedroom market not
20 at the lowest price points, but at midlevel price
21 points.

22 More recently, however, imports from China
23 have penetrated the market and undersold U.S.
24 producers at all price points.

25 Chinese import prices for midlevel product

1 are in some cases below our cost of materials, which
2 is about one-half of our total cost. Thus the Chinese
3 have been able to rapidly take sales in the middle of
4 the market where the greatest volume is, and where
5 price competition is the most fierce.

6 Imports really started to take of in 2000.
7 At about that time started losing bedroom slots at the
8 big national retailers as those companies start to
9 import directly from China by the container load.
10 Since that time we have lost most of our business with
11 the bid national retailers, and we are also losing
12 slots at the smaller, independent furniture stores.
13 Our lost sales have intensified as the imports have
14 accelerated since 2000, particularly this year. Let
15 me give you an example of what we have been facing.

16 Just last month an excellent customer of
17 ours told us that he's going to replace four slots on
18 his floor with new bedroom suites. After the October
19 market and high point, he decided to replace more than
20 twice that many slots with imports from China. As a
21 result, he decided to drop at least six Vaughan-
22 Bassett suites, and replace them with Chinese suites.

23 He told us he was satisfied with our
24 products, but they decided to buy from China because
25 the prices are about one-half of our price. The

1 products are nearly identical. This has happened to
2 us over and over again during the past three years.

3 Vaughan-Bassett has been severely injured by
4 the dumped imports from China. In 2002, lost business
5 to imports from China forced us to shut down most of
6 our production in Atkins, Virginia, resulting in
7 layoffs of almost 300 employees. The Department of
8 Labor certified these employees for trade adjustment
9 assistance benefits.

10 Our other plants have been negatively
11 affected as well. We have been forced to run four
12 days a week instead of five sporadically over the past
13 two years because of imports from China.

14 We instituted a hiring freeze in all our
15 plants earlier this year, and we have 70 fewer people
16 working in our plants today than we did nine months
17 ago.

18 We are doing everything we can to compete
19 with dumped imports. Over the past five years we have
20 invested over \$40 million in our plants and equipment.
21 Our production equipment is state-of-the-art, and our
22 employees are highly trained and skilled.

23 We have computer-controlled routers, rough
24 mill equipment, and carving machines. These
25 investments are not paying off, however, because we

1 can't compete with dumped imports.

2 Some of the importers have argued that the
3 Chinese make certain types of furniture, such as hand-
4 carved furniture that is not made in the United
5 States. That's simply not true.

6 Our computerized carvers can efficiently
7 make carved pieces that are identical to anything that
8 is carved by hand in China. Our carvers, however, are
9 running way below capacity because our furniture with
10 carving in the designs can't compete with the low
11 price of dumped imports.

12 The domestic industry has the ability to
13 produce any type and style of bedroom furniture that
14 is imported from China.

15 We have reduced our shipping lead time
16 considerably by virtually doubling our inventory in
17 our highest volume products. We have invested not
18 only in production equipment, but additional warehouse
19 space and additional production space which makes us
20 more efficient.

21 Our Vaughan-Bassett Express, or VBX program
22 as we call it, enables us to deliver most orders
23 within 10 days of that order. Despite our best
24 efforts to compete, the imports from China continue to
25 increase and we continue to lose slots at our retail

1 customers.

2 In my travels to China over the past decade,
3 I have become well acquainted with the major Chinese
4 producers. Every plant that I know of is expanding.
5 One in particular, Dalian Huafeng, in northern China,
6 is planning to increase its capacity to 5,000
7 containers a month. That's about 100,000 bedroom
8 suites per month.

9 To put that into context, 100,000 bedroom
10 suites a month is more than the top four or five U.S.
11 producers make combined. I have read the reports
12 indicate that Chinese furniture industry's production
13 will double from 2000 to 2005, and will double again
14 within seven to eight years after that.

15 Without relief from dumping, as this massive
16 new capacity comes on line, Vaughan-Bassett and other
17 domestic producers will be forced to further
18 rationalize their production, closing additional
19 plants, and laying off more employees. If imports
20 from China continue at this pace, they will soon put
21 us and other U.S. bedroom furniture producers out of
22 business.

23 Therefore, on behalf of Vaughan-Bassett and
24 its 1,560 dedicated employees, I urge the ITC to make
25 an affirmative determination in this case.

Heritage Reporting Corporation
(202) 628-4888

1 Thank you.

2 MR. ALLEN: Good morning. My name is Irwin
3 Allen. I am President and Chief Executive Officer of
4 Michels & Pilliod Companies, which are based in
5 Lynwood, California. We make wooden bedroom furniture
6 at our plants in Southern California, and Nichols,
7 South Carolina.

8 My perspective is a little different than
9 the other gentlemen that you have heard from thus far.
10 We share the same concerns of those companies. We
11 have some concerns that are unique to the west coast.

12 We sell at the lower price points in the
13 market. The products that we make are often referred
14 to as promotional priced, budget priced, value priced
15 or economy priced. We are proud of the products that
16 we make. We make an excellent product for the price
17 and provide real value for the money.

18 Many of our products are bought by middle
19 class families, but many of our products are also
20 bought by young people who are just getting started in
21 life; in some cases are renting, or renting under
22 sales and lease ownership arrangements, which is also
23 referred to in the business as rent to own.

24 Some of our best customers are members of
25 the Armed Forces whose job satisfaction certainly

1 doesn't come from living in luxurious surroundings.
2 As I said, we are proud of what we make, but we don't
3 make the most expensive bedroom furniture that you
4 will find in the marketplace.

5 I suspect that this industry is a little
6 different than any others that may have come before
7 you seeking relief from dumped imports from China.
8 Imports from China did not initially enter at the low
9 end of the market. By and large, they initially
10 entered the market by selling products that were right
11 in the middle of the quality spectrum. The reason for
12 this has to do with cost of shipping wooden bedroom
13 furniture to the United States.

14 A bedroom furniture set takes up a lot of
15 space in a container in which it is shipped. This
16 means that you're shipping a lot of air, and the cost
17 of ocean freight is therefore relatively high as a
18 percentage of the value of the product at our price
19 point.

20 For that reason, Chinese producers
21 understandably believed they could generate more
22 revenues and absorb the freight costs more easily by
23 shipping products that were not at the lower end of
24 the price spectrum.

25 This meant for some time companies like ours

1 were not faced with an onslaught of low-priced imports
2 from China.

3 Unfortunately, that isn't the case any
4 longer. Imports from China have moved both up and
5 down the range of price points, and now are a major
6 factor in all of them. Consequently, we are now in
7 exactly the same boat as the folks you heard from
8 earlier. In fact, the trends that we have seen over
9 the past three years are accelerating in 2003 and
10 appear to be gaining momentum.

11 We have seen Chinese products being sold at
12 incredibly low prices across the entire range of the
13 products that we sell.

14 A high percentage of our products are so-
15 called print products, which means that the lamination
16 on the outside of the furniture is printed material
17 rather than wood. Chinese veneer products which are
18 perceived by many consumers as higher quality products
19 are now being sold in the lower range of our price
20 point. In addition, print product imports from China
21 are now showing up in our markets in significant
22 quantities.

23 To me, it seems clear that the capacity of
24 the Chinese industry has grown by so much and
25 expanding so rapidly that they have decided that it

1 makes sense for them to maximize their capacity
2 utilization by covering the entire spectrum of price
3 points in this market.

4 These developments have caused major damage
5 to our business with major retail establishments with
6 which we have worked for many years. The number of
7 slots that are available to us at these retailers has
8 been cut dramatically.

9 Let me also talk a little bit about
10 geography. It hasn't escaped the attention of the
11 Chinese industry that California is the most populated
12 state in the union, it is by far the largest market
13 for wooden bedroom furniture in this country, and has
14 several major metropolitan areas with highly diverse
15 ethnic consumers who are hard-working people. The
16 Chinese industry is well on its way to dominating that
17 market.

18 Three major California manufacturers of wood
19 solid and veneer products, Arbeck, Boyd and Wambold,
20 have gone out of business over the last few years.

21 Thank you.

22 MR. VAUGHAN: Good morning, my name is Bill
23 Vaughan, and I'm the President and Chief Executive
24 Officer of Vaughan Furniture Company. I've been
25 working for Vaughan since 1982, and I became our

1 president in 1998.

2 I have a degree in business management from
3 North Carolina State University, and previously served
4 on the Board of Directors of the American Furniture
5 Manufacturers Association.

6 Vaughan was founded in 1923 by two of my
7 ancestors, Taylor Vaughan and Bunyan Vaughan, who were
8 brothers raised on a small farm in southwest Virginia.

9 Wooden bedroom furniture has been our firm's
10 most important product since the mid-1930s. We
11 currently produce wooden bedroom furniture in four
12 factories; two in Galax, Virginia, and one each in
13 Johnson City, Tennessee, and Stuart, Virginia.

14 We are facing hard times that are
15 unprecedented in our company's long history. One very
16 telling measure of this is the price of our company's
17 stock. Vaughan shares are publicly traded although
18 they are not listed on the stock exchanges. Vaughan
19 shares recently traded at around \$3 per share, down
20 from \$13.50 as recently as three years ago.

21 Over roughly the same period our sales of
22 wooden bedroom furniture have fallen by almost 40
23 percent. As a result, we were forced to cease
24 production permanently at a major facility, and to
25 terminate the employment of 250 factory employees and

1 support staff who worked at that plant.

2 The decision to close this factor was a
3 wrenching decision, first and foremost, because of
4 what it meant to these workers and their families, but
5 also because of its symbolic importance. This was our
6 largest plant, and also one of our most profitable.
7 Still, given the magnitude of the sales declines that
8 we have suffered, we needed to cut a lot of capacity,
9 and our largest facility was the most logical
10 candidate.

11 I would like to be able to report to you
12 that our four remaining plants are now operating close
13 to capacity, but unfortunately, I can't. We are
14 running short work schedules at all of these plants.

15 Why is this happening to us? The answer is
16 not particularly complicated. It's not because the
17 market for wooden bedroom furniture is depressed,
18 because it's not. In fact, the market is actually
19 pretty good.

20 It's not because we haven't been making the
21 investments needed to remain competitive because we
22 have. For example, in 2002, we completely retooled the
23 rough end at one of our plants at a cost of over a
24 million dollars.

25 We find ourselves in an extremely difficult

1 situation for one reason only. Dumped imports from
2 China have entered this country at extremely low
3 prices at every price point, which has brought prices
4 down across the board, and resulted in a huge loss of
5 business for domestic producers like Vaughan.

6 The wooden bedroom furniture business has
7 always been highly price-sensitive. That has, after
8 all, historically been a major competitive advantage
9 of companies like mine, which operate in the
10 Appalachian Mountains where, among other things, the
11 cost of living and wages are relatively low. Price is
12 everything. Price and price alone is the reason why
13 the Chinese industry has been taking over this market.

14 To be honest, I was a little surprised when
15 our attorneys told me that this would be disputed.
16 It's not great secret that the Chinese imports at
17 issue are quality products that are being sold on the
18 basis of their lower price. Our customers tell us
19 this all the time, and until recently the Chinese
20 producers were broadcasting their price advantage to
21 the world, and that advantage is not small. It's
22 huge.

23 For example, a good, long-time customer in
24 Las Vegas recently told us that he is going to
25 dedicate to a Chinese product a slot that he has been

1 using to display one of our most popular suites. The
2 only reason given was that the price of the Chinese
3 product was actually one-third of our price.

4 I want to close my testimony on a positive
5 note. To be sure, our financial resources are not
6 unlimited, but we are keeping our remaining facilities
7 in tact and as busy as we can because we believe that
8 we owe that to our employees and to the communities in
9 which we operate. They depend on us to an
10 extraordinary degree, and we know it.

11 So we are keeping faith with our employees,
12 and our communities because we have faith that our
13 trade laws will be enforced, and that better days lie
14 ahead.

15 I speak for more than 1,250 employees of
16 Vaughan and our shareholders in says that I hope that
17 the ITC will do its job and help ensure that the
18 painful sacrifices that we are now making to keep our
19 business alive will not be in vain.

20 Thank you.

21 MR. DORN: Our last three witnesses will be
22 furniture dealers.

23 There was an interesting article in the
24 November 2003 edition of "Furniture Style" regarding
25 retailers and their approach to imports. It notes

1 that about 80 percent of the furniture dealers in the
2 United States have four stores or fewer, and that
3 about two-thirds of the furniture dealers in the
4 United States have less than \$5 million in annual
5 sales.

6 So we are presenting you three
7 representative smaller furniture dealers which
8 represent a much larger universe.

9 MR. LORING: Good morning. My name is Ken
10 Loring. I'm the President of Boston Interiors. We
11 are a family-owned and operated furniture retailer
12 that has been in business for 24 years. Our home
13 office is located in Brookline, Massachusetts. We
14 have five stores located the eastern Mass. area.

15 I am here today because I think the U.S.
16 companies who brought this case are doing the right
17 thing. I don't have anything against imported
18 products per se. We have been buying and selling
19 imported products, wooden bedroom furniture for as
20 long as I can recall. We have imported Chinese
21 bedroom furniture because it's necessary to compete.

22 In that sense, the imports that have been
23 coming into this country in the last few years from
24 China are different from imports from other countries.
25 Let me explain what I mean.

1 Historically, this country has imported
2 bedroom furniture from countries like Denmark and
3 Italy. These countries are able to take a share of
4 the market in this country because they offered
5 something new, or at least different.

6 For example, in the eighties, furniture made
7 in Scandinavia, and Scandinavian styles became very
8 popular. To some extent, it still is. Moreover,
9 imports from countries like Denmark were never priced
10 in a way that was totally out of line with the prices
11 of furniture made in this country.

12 For these reasons, from the standpoint of a
13 retailer these imports really complemented the
14 products available from domestic producers. They were
15 not a substitute for domestic producers. They offered
16 an alternative design or style for the consumer.

17 I can tell you that imports from China are
18 different in that regard. They are coming into this
19 country at prices ranging from 30 to 50 percent lower
20 than those of comparable U.S. producers, made to the
21 same styles and design. Their quality is very
22 similar. The price comparison isn't comparing apples
23 to oranges. The Chinese imports are not different
24 products aimed at some discrete segment of the market.
25 These products are basically identical to U.S.-made

1 furniture. They are designed to expressly to replace
2 U.S.-made furniture in the floor space of mainstream
3 dealers like Boston Interiors.

4 These imported products are made as knock-
5 offs, or copies of bedroom furniture offered by U.S.
6 producers.

7 What does this mean for retailers like
8 Boston Interiors? If this case does not reverse or at
9 least slow the trend that we have seen over the past
10 few years, we will have no choice but to buy more
11 Chinese products. I compete every day with the big
12 block stores that rely on the advantage of imports.
13 If they elect to rely on low-priced Chinese products
14 and we don't follow in their tracks, we won't survive.
15 It's as simple as that.

16 If and when the companies like mine make
17 that decision, you can bet that the domestic
18 manufacturing industry will fall along the wayside in
19 the process.

20 Thanks for your attention. Welcome any
21 questions.

22 MR. BROWN: Good morning. My name is Harold
23 Brown. I am the General Manager and part owner of two
24 furniture stores in the Baltimore area which operate
25 under the trade name Bassett Furniture Direct.

1 Despite our name, we aren't owned by Bassett
2 Furniture. We sell Bassett products, in some cases
3 products imported by Bassett, and have a license to do
4 business under the name Bassett Furniture Direct. But
5 we decide what products we buy and sell, not Bassett.

6 Before I talk about my perspective on this
7 case as a small business owner, I would like to offer
8 an observation about my experience as an employee of a
9 retailer that is not so small, Rooms To Go.

10 I worked for Rooms To Go for five years. I
11 know what their business strategy has been, and they
12 have been very good at executing it. Their business
13 strategy is to offer the lowest price products within
14 any given price point.

15 You can't implement such a strategy unless
16 you source your products from the lowest price
17 supplier, and these days that is the, of course,
18 China. I'm sure that they would say that it's more
19 complicated than that, but it's really not.

20 Small retailers like me compete with
21 companies like Rooms To Go. As a result, we're in a
22 bind. We can't expect to survive over the long run if
23 mass merchandisers like Rooms To Go have access to
24 low-priced imports from China and we do not have
25 access to similarly priced products.

1 Hence, we are constantly putting pressure on
2 our suppliers, in our case Bassett, to offer us
3 bedroom furniture at competitive prices. We don't
4 care whether they supply us with imported products or
5 with domestically-produced products. We just want
6 quality products at prices that are at least
7 reasonably comparable to what Rooms To Go is paying.

8 What this means for our supplier is really
9 quite simple. Bassett either has to figure out a way
10 to make products in the United States that are price
11 competitive with the Chinese imports, or Bassett
12 itself has to resort to imports to keep us competitive
13 with the mass merchandisers.

14 In fact, they have been trying to do both
15 with a strategy that blends their domestic production
16 with imports of selected items.

17 Please keep retailers like me in mind when
18 you consider claims that the domestic producers are
19 responsible for a significant portion of some of the
20 imports that have come in from China. You can't view
21 those imports in a vacuum.

22 U.S. producers have evidently concluded that
23 they cannot maintain U.S. production over the long run
24 in a world where the Rooms To Go have direct access to
25 dumped Chinese imports. In my opinion, they are

1 correct.

2 Thank you for giving me the opportunity
3 speak with you today.

4 MR. HEWITT: Good morning. My name is
5 Harold Hewitt. I own and operate Superior Furniture,
6 which is based in Beckley, West Virginia. Superior
7 has four stores that sell furniture in the southern
8 part of West Virginia.

9 Before talking about my company, I would
10 like to briefly discuss how wooden bedroom furniture
11 is purchased and sold. When we buy furniture, we buy
12 suites. When we display furniture in our stores, we
13 display it in suites. When we sell furniture, we
14 almost always sell suites. Although we are perfectly
15 willing to sell different bedroom furniture items
16 separately, the vast majority of our customers, more
17 than 90 percent, buy suites. This is the way
18 virtually all retailers operate.

19 We are a small company. The bigger
20 retailers sell more wooden furniture in a day than we
21 do in a year, but in many ways we are representative of
22 a much bigger -- something much bigger.

23 First, we support this case, and we're not
24 alone in doing that. I understand that the Commission
25 has received hundreds of letters from other furniture

1 dealers supporting this case. We need to have the
2 choice of buying furniture made in this country. We
3 won't have that choice very much longer if the
4 industry is forced to close plant after plant as it
5 has in the past few years.

6 Second, most wooden bedroom furniture in
7 this country is sold by small retailers like us. We
8 don't have the economic resources of the mass
9 merchandisers, and we're therefore not in a position
10 to speak loudly from the roof top as they can, but we
11 are actually a much bigger part of a picture than they
12 are.

13 Third, like many other small retailers, the
14 economics of importing furniture do not work well for
15 us as they do for the big retail operations. This is
16 because imported bedroom furniture is significantly
17 cheaper to buy by the container. This is a big
18 commitment for most small retailers. If you buy a
19 container of imported furniture, you are buying a lot
20 of furniture, and you had better be confident that you
21 are able to sell it at the prices that will compensate
22 you for carrying it in inventory and taking up floor
23 space.

24 Fourth, like most small retailers, we are
25 turning to imports from China anyway. We just don't

1 have a choice. The alternative is to go out of
2 business. That's not an exaggeration.

3 At a personal level, I prefer to support the
4 domestic producers with whom we have worked for many
5 years, but the price gap between domestic and Chinese
6 product is enormous. When a domestic manufacturer is
7 offering you a suite for \$1,000, and a suite of
8 comparable quality for nearly identical design is
9 available from China from \$700, if I buy the domestic
10 suite, and my competitor down the street buy the
11 imported suite, it doesn't take a genius to figure out
12 who wins and who loses.

13 That's not a hypothetical situation, by the
14 way. That is a the reality facing all furniture
15 retailers today. I know firsthand because as small as
16 we are, Superior is depending more and more on imports
17 from China whereas three years ago imports from China
18 occupied only two of 48 slots that we dedicate to
19 bedroom furniture in our four stores. Today, imports
20 from China take up 18 of these slots.

21 I know that some folks say that imports from
22 China are selling in the market because they are doing
23 something new or different than the domestic
24 manufacturers. That's just not the case. They are
25 selling essentially identical products. That is

1 hardly surprising given that the Chinese industry has
2 succeeded in this country by copying American style
3 and designs, and given that any quality differences
4 that once might have existed have disappeared.

5 People who buy from us simply don't know and
6 don't care whether they are buying products made in
7 China or made in the United States.

8 Thank you for the opportunity to talk to you
9 today. I would be happy to answer any questions.

10 MR. DORN: We have other statements which I
11 have compiled and we're prepared to present the of
12 furniture dealers across the United States. They
13 haven't been submitted yet. We have over 500 right
14 here. I will be submitting them as a batch some time
15 next week after we get some more in hand.

16 And that completes our presentation. We
17 would like to reserve the remaining time for rebuttal.
18 Thank you.

19 MR. CARPENTER: Okay, thank you, gentlemen,
20 for your testimony. We appreciate the extensive group
21 of witnesses that could come here today to testify.

22 Just one point of clarification, Mr. Dorn.
23 In conferences, we don't permit you to reserve time
24 for rebuttal. Each party gets a full 10 minutes for
25 rebuttal at the end of the conference.

1 MR. DORN: Okay, that's fine.

2 MR. CARPENTER: We will begin the questions
3 with Mr. Fischer.

4 MR. FISCHER: Fred Fischer, Office of
5 Investigations.

6 Thank you all for your testimony. I just
7 have a few brief questions. This first question is
8 for Mr. Dorn.

9 Exhibit 33 identifies companies that have
10 received certifications on trade adjustment
11 assistance. If you could provide in your post-
12 conference brief more details, particularly the
13 certifications themselves if they are not too
14 voluminous, as well as the number of employees
15 affected at each plant?

16 MR. DORN: We've pulled together a package
17 of all the applications and all the certification, and
18 they are ready to present to you whenever you would
19 like to receive them.

20 MR. FISCHER: You can incorporate them in
21 your post-conference brief.

22 MR. DORN: We will do so.

23 MR. FISCHER: Thank you.

24 This question is, I guess, for all the
25 participants. I am just trying to get a better

1 understanding of the import strategy and how your
2 companies decide what to import and how much to
3 import, whether it's from China or elsewhere, but
4 particularly China.

5 Mr. Kincaid, you had mentioned that your
6 firm imports now from China.

7 MR. KINCAID: Yes, thank you.

8 Yes, we have five separate companies. They
9 all do import a certain percentage of their products
10 that we do market. It has grown rapidly over the last
11 three years, so the decision to import or to make
12 domestically basically has resulted in what can we do
13 to be competitive.

14 And every six months we have a furniture
15 market, and every time we go through the scenario of
16 what do we introduce you look at, you know, the cost
17 factor and whether we can produce it domestically and
18 will that be competitive, or do we have it sourced,
19 you know, in China and be competitive. So it's kind
20 of a self-fulfilling prophesy that we're going
21 through. As we do import more from China, we are
22 forced to make less domestically.

23 MR. FISCHER: So decisions are made on a
24 suite-by-suite basis or is it a particular price point
25 that you would -- I don't want to use the word

1 "concede," but reserve for imports, or a particular
2 style, or is it limited to a particular suite?

3 MR. KINCAID: It is a suite. Yeah, I think
4 today, I think the point was made earlier that today
5 the Chinese can actually manufacture any style of
6 furniture that we still produce in the U.S., so it
7 basically is any style today.

8 MR. FISCHER: So would it be in reaction to
9 keeping a retailer account you then make that as the
10 basis for your decision?

11 MR. KINCAID: Yes, and to be competitive in
12 the marketplace.

13 MR. FISCHER: Thank you for that response.
14 I have no further questions at the moment. Thank you.

15 MR. CARPENTER: Mr. Reynolds.

16 MR. REYNOLDS: Thanks everyone for coming
17 today and being here and presenting all of your
18 testimony. It's been very informative and helpful.

19 I am a lawyer and I deal with issues like
20 like product, so I'm going to focus on that for a
21 little bit. For those of you who aren't trade
22 lawyers, you may not know, but Mr. Dorn does and Mr.
23 Narkin does, Mr. Jones does.

24 But several of the factors that we look at
25 when doing like product, examining it, are the

1 physical characteristics and uses, and the
2 interchangeability of all of the products. And quite
3 obviously, the scope of your petition, which defined
4 wooden bedroom furniture, includes several types of
5 furniture that has arguably dissimilar uses and
6 characteristics.

7 For example, a dresser is used to store
8 clothes, and a bed is used to sleep in, and a night
9 stand is used for lamps. I mean, you wouldn't sleep
10 in a dresser, for example, I hope.

11 So the question for us, Mr. Dorn, and you
12 can refer to whatever witnesses you want to to use
13 here, is how would the Commission -- assuming that it
14 decided to go with the one like product that you have
15 proposed here, how does the Commission deal with those
16 dissimilar uses and characteristics? How does it
17 analyze it and conclude that those are not
18 particularly important for purpose of finding one like
19 product?

20 MR. DORN: I would say the same way it did
21 in porcelain and steel cookware in saying a tea
22 kettle, which is used, you know, to boil water for
23 tea, is the same like product category as a porcelain
24 and steel skillet, and a porcelain and steel roaster
25 that goes in the oven. They all have distinct uses,

1 but they all have that common element.

2 In fact, it's a stronger case here because,
3 you know, as you have heard from the witnesses, it is
4 so common, it is typical to design a suite. You don't
5 design a night stand. You do design tea kettles
6 separately, but they still got included as one like
7 product. But here everything is designed to function
8 together, and they are all serving the needs of
9 someone in a bedroom. There is an integration of uses
10 in that you store your clothes next to your bed. You
11 put your cup of coffee next to your bed on the night
12 stand. So it is all related in end use.

13 MR. REYNOLDS: I got you.

14 Following up on the porcelain and steel
15 issue, that case, it seems to me that all of those
16 products were used for cooking, cooking food. But
17 again, it seems it's arguably a distinct difference
18 between storing clothes and sleeping.

19 And what you have done here and what you
20 have emphasized very heavily, and I'm not saying I
21 disagree with this, I'm just interested in exploring
22 the issue, what you have emphasized very heavily in
23 the petition is the notion that there is a similarity
24 of uses and interchangeability to some extent because
25 of the fact that they are used in a place, a bedroom,

1 as opposed to being used for the same purpose of
2 having the same uses.

3 For example, to take a different precedent,
4 recently in the tables and chairs case from China, and
5 you are probably aware of that, we separated out metal
6 tables from metal chairs as a like product.

7 So, you know, I guess my issue is can you
8 point us to a case where we have looked at the place
9 of use as opposed to the type of use when doing like
10 product?

11 MR. NARKIN: Yes, Mr. Reynolds. This is
12 Steve Narkin with King & Spalding.

13 One case in particular, there is more than
14 just one, that we would like you to take a careful
15 look at is the long series of cases involving oil
16 country tubular goods. And as you probably know, the
17 Commission in those cases has -- from time to time
18 they've had a different view on a very small specialty
19 item called drill pipe.

20 But over the course of 20 years they have
21 consistently found that casing and tubing belong in
22 the same like product. Both products are used to
23 drill and extract gas or oil from an oil or gas well,
24 but casing and tubing physically are very different
25 and they perform different functions.

1 Casing is used to support the well, to keep
2 it from collapsing. OCTG tubing is used to extract
3 the oil or gas from a gas well.

4 That's one case. We also think if you look
5 at what the Commission has done in some cases
6 involving semi-finished products, the theme underlying
7 some of those cases is that in evaluating the question
8 of physical characteristics and uses the Commission
9 should pay close attention, and endeavor as much as it
10 can to group together those producers, semi-finished
11 and finished, who are being equally affected by
12 imports.

13 And for all of the reasons that have been
14 touched on so far, when you have an industry where
15 everybody is making the product in suites, it's bought
16 in suites, the competition is for sale of suites, it
17 seems to us fairly clear that the point of competition
18 is for the sale of suites, and therefore all
19 manufacturers of the various items that comprise a
20 suite are equally affected by the imports that are
21 coming in from China.

22 Is that helpful?

23 MR. REYNOLDS: Oh, it is, and actually, I'll
24 follow up with that last concept too, and this will be
25 a little more helpful, I guess, which is, in terms of

1 looking at interchangeability and uses, what we're
2 looking at, it seem to me to a great extent in the
3 market, is that you're competing for sales to the
4 retail level, not to the end-user level, not to the
5 person who is sleeping in the bed and using the
6 dresser.

7 So should we be looking at uses and
8 interchangeability in a somewhat different way, which
9 is, are these things interchangeable from the retailer
10 perspective which might arguably be characterized as
11 being, well, what you're looking at is are things
12 interchangeable as a suite in terms of the way they
13 are marketing it to the end user, if you see what I'm
14 getting at?

15 MR. DORN: I think that's an important point
16 here because the competition is for these bedroom
17 slots. And so what's competing? It's a one suite
18 versus another suite. It's not a night stand versus a
19 night stand.

20 And so to disassemble the suite, it's just
21 contrary to the major condition of competition in this
22 industry. It just makes no sense.

23 MR. REYNOLDS: And so, I mean, I have asked
24 these questions if you want, it will be useful if you
25 address sort of the legal precedence issue from the

1 Commission's perspective in using the concepts that
2 you have talked about in the petition.

3 MR. DORN: We certainly plan to do that.

4 MR. REYNOLDS: Great. In the petition you
5 also, Mr. Dorn and Mr. Narkin and Mr. Jones, you talk
6 about the fact that all of the wooden bedroom
7 furniture is produced in the same facilities, and I
8 read it to mean sort of the same production lines and
9 the same production employees.

10 To what extent is that true? Is my
11 understanding a little bit off, or do you actually
12 have the same people producing a bed and a dresser and
13 a night stand?

14 MR. DORN: Let me have Wyatt Bassett respond
15 to that, please.

16 MR. W. BASSETT: I'm sorry. Could you
17 repeat the last part of the question to make sure I
18 understand the question?

19 MR. REYNOLDS: Sure. One of the things we
20 also look at in addition to use and interchangeability
21 is whether things produced in the same facility is
22 using the same technology processes, production
23 processes, and employees. And I guess that's what I'm
24 asking you.

25 I think in the petition your counsel has

1 suggested that these are all produced essentially in
2 the same line, same employees, same facilities.

3 To what extent is that true and to what
4 extent is it --

5 MR. W. BASSETT: It's overwhelmingly true,
6 if not exclusively true. Of the petitioning
7 companies, I'm not aware of anyone that has as bed
8 plant, a separate dresser plant, a separate mirror
9 plant, a separate armoire plant, a separate night
10 stand plant.

11 If you're producing a collection or suite of
12 bedroom furniture, the vast, vast majority of the
13 time, 99 percent of the time, if not 100, all the
14 component pieces of that suite are being produced in
15 that same plant.

16 The wood for that suite is all running
17 through the lumber yard, the rough-in, the machine
18 room, the sanding room, down the production lines,
19 down the finishing lines, and into the same warehouse.
20 So all the employees in that plant are going to be
21 working on that product.

22 MR. REYNOLDS: Great, that was helpful, Mr.
23 Bassett.

24 A further follow upon that, this is becoming
25 more and more technology, it's using more and more

1 developed equipment, I guess, and less labor-intensive
2 in the industry; is that true?

3 MR. W. BASSETT: That's absolutely true,
4 particularly over the last five to 10 years. Our
5 plant, if you walked in our plant probably 15 years
6 ago, you wouldn't recognize it as the plant we have
7 today. A huge amount of our equipment now is computer
8 run and computer driven. Our rough-in equipment,
9 rough mill equipment, which cuts all of our lumber, is
10 run by computers. This both helps us to get better
11 yields on our material, plus it's dramatically reduced
12 the amount of labor we have in cutting that lumber.

13 Computer-controlled routers, which we have
14 roughly 18 of between our four plants, often perform
15 the operations that before it took four or five
16 different machines to run. This has dramatically
17 reduced the labor content to machine those pieces.

18 One of the pieces of equipment we have
19 purchased are computer-controlled carving machines.
20 We spent almost a million dollars in buying and
21 installing computer-controlled carving machines.
22 These machines will allow us to absolutely duplicate
23 any type of hand carving you would do.

24 One person can operate a machine that's
25 carving 10 different parts at the same time. An

1 average length of time a part might spend on this
2 machine getting carved is 30 minutes. So in one
3 manhour we can carve about 20 parts. If you were
4 going to do it by hand, it might take two manhours for
5 one part.

6 This machine dramatically reduces the amount
7 of labor that goes into carving the piece, and would
8 allow us to compete with much lower labor doing hand
9 carving.

10 Unfortunately, because of the low prices of
11 the dumped imports out of China, this million dollars
12 worth of equipment is running way under capacity. We
13 could literally run five, six, seven times more
14 product through it than we are now. There are plenty
15 of days that it doesn't run simply because we don't
16 have the product to run through it.

17 MR. REYNOLDS: Great. Again, that was very
18 helpful.

19 So, you know, I think you said in the last
20 10 years you have seen a dramatic shift in the level
21 of technology and equipment, you're using higher tech
22 stuff. Has that allowed you to reduce your labor
23 force?

24 MR. W. BASSETT: We've not had until
25 recently to reduce our labor force because we grew

1 dramatically in the 1990s. If we had not grown our
2 company, it would have actually reduced our labor
3 force because it has definitely reduced the labor
4 content in the product.

5 But our rate of growth through the nineties,
6 because we were coming so much more efficient and so
7 much more competitive, actually allowed us to increase
8 our labor force, at the same time reducing labor
9 content in the product.

10 As our sales have stagnated over the last
11 three years, we have had to reduce our labor force
12 dramatically.

13 MR. REYNOLDS: Are there other producers --
14 thank you, Mr. Bassett -- other producers, have you
15 seen the same technological development in your
16 factory equipment, and has that had an impact on your
17 ability to reduce your labor force?

18 Basically, if you can comment on the same
19 issue that I asked Mr. Bassett, which is, is
20 increasing technology allowing you to reduce your
21 labor force?

22 MR. KINCAID: Yes, speaking for the La-Z-Boy
23 companies, we have continued to do that, is why I
24 mentioned technology has really come on the forefront
25 probably 10 years ago with computerized equipment. As

1 I mentioned in my testimony, La-Z-Boy has invested
2 over \$40 million in capital expenditures and R&D just
3 to become more efficient, and we have done that.

4 We have reduced the percentage of labor in
5 the cost of our product as we have become more
6 efficient. The new technology has enabled us to
7 increase lumber yields, improve quality. So we have
8 done what, you know, you would think you would need to
9 do to grow the business and remain competitive.

10 But in spite of that we have reduced our
11 workforce, as I mentioned, by 1,900 people in the last
12 two and a half years.

13 MR. REYNOLDS: Based on technology?

14 MR. KINCAID: Because of the imports. I'm
15 sorry, not because of technology.

16 MR. REYNOLDS: Anybody else?

17 MR. SPILMAN: We have done the same thing at
18 Bassett, Mr. Reynolds. As a matter of fact, we are
19 now in our budgeting process for next year, which will
20 include at least on the table right now some \$4.5
21 million worth of further capital expenses, machinery,
22 software upgrade to our computerized rough mill
23 equipment, computerized motor. So we are experiencing
24 similar type advancements in technology.

25 MR. REYNOLDS: Thank you, Mr. Spilman.

1 To what extent is there in the industry, and
2 you can talk about just both your company's experience
3 as well as what you know about the industry, I think
4 in the petition it was suggested that there is some
5 dividing line between either facilities that produce
6 bedroom furniture or companies that do, and facilities
7 or companies that produce other types of furniture
8 like dining room furniture or living room furniture.

9 Again, to what extent do you think that's
10 true as a generalization, that you will see
11 distinctions in production facilities, production
12 lines between wooden bedroom furniture and say wooden
13 dining room furniture or wooden living room furniture?

14 MR. W. BASSETT: What you'll find is that
15 the vast majority of factories that produce bedroom
16 furniture, the vast majority of their production is
17 their bedroom furniture, if not all bedroom furniture.

18 We're very typical of what you found in the
19 industry throughout its history. As recently as about
20 three years ago, all four of our plants produced
21 nothing but bedroom furniture. You're going to find
22 our numbers have changed a little bit since then
23 because of the dumped imports we haven't gotten the
24 volume necessary to run those plants full time and
25 full speed.

1 Since then we have had to put product into
2 those plants other than bedroom furniture to try to
3 supplement the business we were getting in.

4 Still, however, having put in that other
5 product we're running about 95 percent on bedroom
6 furniture, and I think that's what you're going to
7 find largely through the industry, and in China I
8 think you're going to find the same thing.

9 MR. REYNOLDS: Great. Thank you, Mr.
10 Bassett.

11 Anyone else? That reflects everyone's views
12 as well? Okay.

13 Again, I guess going back to
14 interchangeability, several items of bedroom furniture
15 aren't included in the scope such as curved wooden
16 furniture -- I'm sorry -- rattan, wicker it's --

17 MR. DORN: Furniture in which Bentwood --

18 MR. REYNOLDS: Bentwood is the word, right.

19 MR. DORN: It's a customs category, and none
20 of our folks make that, so we didn't want to overreach
21 so we took it out of the scope of the case.

22 MR. REYNOLDS: Okay. And you said none of
23 your people make that furniture. Is it a different
24 set of producers who produce Bentwood, rattan, wicker,
25 et cetera, than the people who produce wooden bedroom

1 furniture?

2 MR. DORN: My understanding is not much of
3 that would be made for the bedroom to begin with, but
4 none of these folks make it.

5 MR. REYNOLDS: Okay. Is it true that there
6 is a very small amount of it made for the bedroom, as
7 Mr. Dorn just said? Okay. I'm not questioning you.
8 I just wanted to make sure of that.

9 MR. DORN: That's your job.

10 MR. REYNOLDS: What about metal producers,
11 metal bedrooms, like metal, brass beds, metal-framed
12 beds, things like that? Different set of producers?

13 MR. W. BASSETT: You're definitely going to
14 find a different set of producers, and I think you're
15 going to find it marketed on a different section of a
16 retail floor.

17 MR. REYNOLDS: Okay.

18 MR. W. BASSETT: For instance, I have never
19 seen a brass bed suite in my history.

20 MR. REYNOLDS: Yeah.

21 MR. W. BASSETT: I don't know if anyone else
22 here ever has. I have never seen all metal bedroom
23 furniture like you would find a metal filing cabinet.

24 MR. REYNOLDS: Yes, I've never seen a brass
25 night stand.

1 MR. W. BASSETT: No, and I don't know,
2 frankly, whether there is any made. If it is, it
3 would be a big surprise to me.

4 MR. REYNOLDS: Okay, great. One other
5 question on like product, which is, Mr. Dorn, the
6 scope of it include unassembled, unfinished,
7 uncompleted pieces of wooden bedroom furniture.

8 When imported or even -- is there a market
9 for that type of furniture in the United States? Is
10 there a significant market for unassembled bedroom
11 furniture?

12 MR. W. BASSETT: Yes, there is a market for
13 unassembled bedroom furniture. It is certainly a
14 smaller market than the market for assembled furniture
15 manufacturers, and from personal experience, from the
16 people in the -- they call it the RTA business, the
17 ready-to-assemble business, they typically do more
18 things like book cases and some other types of
19 furniture than they typically do in bedroom, but they
20 also do produce unassembled bedroom furniture.

21 As far as unfinished, there is an unfinished
22 furniture association who represents a great number of
23 unfinished, or a decent number of unfinished furniture
24 manufacturers who sell unfinished furniture.

25 Again, it's a much smaller segment of the

1 market that you're going to find than the finished
2 segment of the market.

3 MR. REYNOLDS: Is there a distinction
4 between the people who generally produce unfinished
5 products domestically, is there a difference between
6 the type of producers who produce that unassembled,
7 unfinished merchandise as opposed to the finished
8 wooden bedroom furniture that you guys represent?

9 MR. W. BASSETT: As far as their facilities,
10 I would doubt it. As far as exactly who they are, I
11 think people who produce unfinished furniture probably
12 predominantly produce unfinished furniture. People
13 who produce finished furniture predominantly produce
14 finished furniture, although I'll tell you one of the
15 thoughts that's crossed our mind if the market keeps
16 getting eaten up by dumped imports is we might have to
17 get into unfinished furniture.

18 MR. REYNOLDS: And again, do people have a
19 sense of how big a portion of the market unassembled,
20 unfinished wooden bedroom furniture represents? How
21 much of the market does those types of product
22 represent?

23 MR. DORN: Could we study that and get back
24 to you in the post-conference brief because that's not
25 something we've really discussed?

1 MR. REYNOLDS: Sure, that would be great.
2 And if you would address whether we should apply to
3 that product the semi-finished product factors or the
4 traditional product factors, and give us an analysis
5 of that in your post-conference brief, that would be
6 fine.

7 MR. DORN: We would be glad to do that.

8 MR. REYNOLDS: Okay. Just a quick question.
9 I think I have just a couple more questions and then
10 turn it over to the other people on the staff.

11 A lot of the presentation you've made here
12 is emphasizing the fact that this is marketed in
13 suites, marketed, sold, produced as a suite, designed
14 as suite. Now, I saw up on a couple of your slides
15 that they weren't actually. There seemed to be a
16 total price for an entire suite when advertised.

17 But what I have seen and I think and I've
18 heard previously from your counsel is that when you
19 see the invoice they are priced in a unit basis. How
20 does the pricing work when things are -- you see an
21 overall price for a suite, and then you have a unit
22 price for each of the units?

23 I mean, is competition on a unit basis? Is
24 it on a night stand versus bed basis, or an overall
25 suite basis in terms of pricing?

1 MR. W. BASSETT: No, the competition is very
2 definitely in terms of -- the competition is in terms
3 of the suite when it comes to pricing. If you look at
4 the way we quote our furniture prices to our
5 retailers, including the ones here in the room today,
6 the first price we're going to quote them is the
7 suite. That's going to tell you if it's competitive
8 or not, and lets you know how it competes to the
9 competition.

10 When it comes to individual pricing, the
11 reason for the individual pricing is some people don't
12 have as big a bedroom as another person. One person
13 can fit two night stands, one person can fit one in
14 their bedroom, for instance. You have to price it
15 individually to take that into account.

16 That's not, however, how we compete with
17 other manufacturers for slots on retailer's floors.
18 If you look at retailers' advertisements, you're going
19 to see that that's not how they compete for the market
20 at large. And when you look at these advertisements,
21 you're not only seeing all the pieces of the suite in
22 the advertisement, you're seeing it quoted that way.

23 I'm yet to see the first advertisement in
24 "Furniture Today" from a Chinese manufacturer that
25 says you can buy this piece for X dollars. Every

1 single advertisement in there says that you can buy
2 this piece -- I mean you can buy this suite, excuse
3 me, for 399, or you can buy this suite for 359, or you
4 can retail this suite at 699. No one is going in and
5 saying you can buy this chest for \$79.

6 MR. REYNOLDS: So I guess when you're
7 looking at the unit prices that you set forth on the
8 invoices and that people are giving to retailers, how
9 do you set it?

10 And I apologize if this sounds a little
11 laymanish. I mean, I don't understand how things are
12 priced here.

13 Would you normally just have sort of a set
14 ratio for an overall suite price for each of the
15 individual pieces, so that if a retailer said to you,
16 I don't like the fact it's a thousand, cut it down to
17 800, that for each of those unit prices you would pro
18 rate the reduction when you put it on the invoice? Do
19 you see what I'm saying?

20 MR. W. BASSETT: Special deals by definition
21 are special, so I guess you can handle them any way
22 you want. You could take it all off of one piece.
23 You could pro rate it off.

24 MR. REYNOLDS: Exactly.

25 MR. W. BASSETT: But it's going to change on

1 every special deal you have. I don't know anybody who
2 does it the same way as another person. In fact, a
3 customer looking for a special deal may have you --
4 want it re-merchandised a different way from the way
5 they did a year before.

6 What will -- I'm trying to remember the
7 beginning of the question.

8 MR. REYNOLDS: Well, I guess I was asking
9 whether you would actually have situations, and I
10 think you just answered it, generally you said before
11 that unit pricing competition is on a suite basis
12 generally.

13 MR. W. BASSETT: Exactly. Well, the only
14 competition is on a suite basis. It's not on a unit
15 basis.

16 MR. REYNOLDS: If someone said for you to
17 lower the price by 20 percent, they might actually say
18 why don't you lower the bed price 30 percent and the
19 night stand prices 10 percent for an overall -- I
20 mean, that's up to them but --

21 MR. W. BASSETT: It's up to them what they
22 ask and I guess it's up to us what we give, but I
23 don't know that you can make a whole lot of
24 generalization about it.

25 We certainly, when we price our furniture

1 from our cost sheets, we look at what it costs us to
2 make that entire suite, and that's the price we
3 establish. How we break that up between the
4 individual pieces comes down to more or less how you
5 want to merchandise it. It may be you put more profit
6 on one piece than another. It may be you put an equal
7 amount of profit on each piece. That is really
8 secondary to the price of the suite.

9 Never does how we price an individual piece
10 affect how we've price that suite. That's the
11 decision we make first.

12 MR. REYNOLDS: And that is true of
13 everyone's perception of what happens in terms of
14 pricing?

15 MR. NARKIN: Yes. This is Steve Narkin.

16 I think Mr. Loring would just like to add to
17 what Mr. Bassett said.

18 MR. LORING: From a retailer's perspective,
19 when we evaluate whether or not a suite comes or goes
20 on our floor, we don't look at the price of the
21 individual pieces. We look at the total price. If
22 the manufacturer was smart enough to have a low price
23 on the bed, but a high price on the dresser, it's
24 really irrelevant. When it hits the floor we want to
25 have a suite price that the consumer is going to be

1 able to see the value of the whole group.

2 So no matter what they tell us we look at
3 the group, and we have a little spreadsheet that says,
4 well, this costs \$1,200 from this guy, and \$1,100 from
5 that guy. We group and look at the group pricing.

6 The individual pricing then might be
7 negotiated or, you know, considered. But if Company B
8 has a night stand that's half price, we would never go
9 to that vendor, because the group is overall more
10 expensive. Do you follow that?

11 We just evaluate it based on full price of
12 the whole group. Now, there might be a deal hidden in
13 there, but that's really not what's going to make or
14 break whether or not that suite goes on the floor.

15 MR. KINCAID: Mr. Reynolds, I'm sorry, one
16 other comment about that. In the hospitality segment
17 at America of Martinsville, when we price a group for
18 a hotel chain, we do that as a suite as well, where it
19 would be a complete motel room of furniture.

20 MR. REYNOLDS: Great. Thanks a lot. I'm
21 sure Mr. Benedick, who is our economist, will have
22 some more questions on that.

23 On another legal issue, what our statute
24 asks us to do is decide whether or not we should
25 exclude from our industry producers who are called

1 related parties, and you're a related party, amongst
2 other things, if you import merchandise from the
3 subject country.

4 So again, I would ask Mr. Dorn, is there --
5 there is a related party issue here because many of
6 your producers have told us you're importing
7 substantial amounts of merchandise from China.

8 So the question is, what should the
9 Commission, in your view, do with producers who do
10 that? Are there categories of these producers who
11 should be excluded as related parties? Should we
12 include all the producers and assess causation on that
13 basis in the industry?

14 MR. DORN: Well, it's certainly our view
15 that producer imports are a symptom of a deleterious
16 effects of the dumping, and the folks at this table
17 are not importing because they want to import. What
18 they want to do is use their own factories and use
19 their own employees. But they are importing
20 defensively because if they don't they are going to
21 lose even more market share and even be in worse shape
22 than they are today.

23 And some of these folks, while you could say
24 they are the technically related parties, they do not
25 satisfy the criteria for exclusion under the statute.

1 In order to determine whether there are any
2 members of the industry that import to a much larger
3 degree than the folks at this table, and whether they
4 should be excluded will depend on our analysis of
5 their questionnaire responses and the degree of their
6 imports versus their domestic production.

7 So I haven't formed any opinion on some of
8 those companies as of now, but we will certainly be
9 happy to address that in our post-conference brief
10 once we have access to the confidential data.

11 MR. REYNOLDS: Factual question for you on
12 that. Is it your sense that there are people who are
13 importing -- producers, the producers who are
14 importing a much more substantial volume of their
15 sales from China than just the people are forming the
16 petitioning group or who support the petition in this
17 case?

18 MR. DORN: Certainly, yes. If you look at
19 the imports of the petitioning group, it's a fairly
20 small percentage of their overall sales of bedroom
21 furniture. That is not true for some particular other
22 members of the industry.

23 MR. REYNOLDS: And a related question on
24 this that I think: You're shutting down production in
25 the United States in response to Chinese imports and

1 you're importing from China. To what extent is it
2 just simply a matter of your company's decision to
3 import furniture that is already being produced by
4 separate producing companies in China as opposed to
5 setting up your own production facilities? Let me put
6 that simply, which is are you shifting production
7 operations overseas and have you shifted production
8 over operations to China in particular during the
9 last, say, five years?

10 MR. DORN: None of the petitioning group has
11 established any production facilities in China and
12 I don't believe in any other countries either.

13 MR. REYNOLDS: So this is a matter of just
14 simply purchasing from unrelated companies and
15 unaffiliated production facilities?

16 MR. DORN: That's correct.

17 MR. REYNOLDS: Okay. Thanks very much.
18 I really appreciate the input and I'll turn it over to
19 Mr. Carpenter.

20 MR. CARPENTER: Thank you.

21 MR. BENEDICK: Thank you. I am the
22 economist on the case and as such I'm interested in
23 the demand and supply conditions in this industry.
24 Neil has touched on some supply conditions rather
25 extensively, but I would like to follow up a little

1 bit with the concept of the suite-to-suite
2 competition.

3 Let me ask Mr. Kincaid and Mr. Bassett and
4 Mr. Spilman, does your firm since you price your
5 product per suite, which means per unit of suite, do
6 you keep quantity data for your production in number
7 of suites?

8 I'll start with Mr. Kincaid.

9 MR. KINCAID: The question is do we keep
10 cost data?

11 MR. BENEDICK: No, quantity data. Quantity
12 of production in number of suites.

13 MR. KINCAID: The companies that we operate,
14 we do that. We do that. We may have different
15 dressers and different mirrors within a collection,
16 but when you're looking at the profitability or
17 costing a suite or a group of pieces in the same
18 collection, then we do that as a group. That's how
19 you look at the profitability of the collection.

20 MR. BENEDICK: No, I mean, for instance, if
21 you were a steel producer, you would produce so many
22 tons of steel per year. Your quantity of production,
23 is it so many suites per year?

24 MR. KINCAID: Yes.

25 MR. BENEDICK: And so you would have those

1 figures available?

2 MR. KINCAID: We have it on an individual
3 basis, but we do have it available, just how you would
4 compile it.

5 MR. BENEDICK: Okay. Mr. Bassett?

6 MR. WYATT BASSETT: We keep -- what's
7 important to us is how many suites. Every week, we
8 keep up on a daily basis on the basis of incoming
9 orders how many suites we've gotten per factory. When
10 we place production runs, we place hundred suite
11 cuttings or thousand suite cuttings or 1500 suite
12 cuttings, we don't count how many pieces the cuttings
13 are.

14 As far as supplying the information on a
15 suite basis, it can be done, the tricky part just
16 comes into how are you asking for information on the
17 suite? In other words, are you counting the suite as
18 a dresser, mirror, a bed and a night stand or a
19 dresser, mirror, bed, two night stands; dresser,
20 mirror, chest.

21 MR. BENEDICK: No, just number of suites.
22 Number of suites.

23 MR. WYATT BASSETT: Yes. We keep that
24 information on numbers.

25 MR. BENEDICK: Mr. Spilman?

1 MR. SPILMAN: We do the same. We cumulate
2 our cost data based on suites. We track our variances
3 at the end of the month based on the suites,
4 et cetera, so, yes, we have that information
5 available.

6 MR. BENEDICK: So let me ask all three of
7 you again, when you ship to your customers, do you
8 ship in full suites?

9 MR. KINCAID: With our company, it does
10 vary. We will ship typically a dresser, mirror, chest
11 and a bed at the same time.

12 MR. BENEDICK: Excuse me. I thought you said
13 you sold them as suites.

14 MR. KINCAID: We do sell them as suites.

15 MR. BENEDICK: So you would sell the same
16 number of beds, the same number of dressers, the same
17 number of night stands, the same number of mirrors?

18 MR. KINCAID: Yes, we do initially. Now,
19 the retail customer may sell it --

20 MR. BENEDICK: No, what you sell to your
21 retail customer.

22 MR. KINCAID: What we sell to our retail
23 customers is in a suite.

24 MR. BENEDICK: So for the price data we
25 requested in the questionnaires, then I would expect

1 to see, for instance, from your company for the Louis
2 Philippe Suite that we asked price data, the same
3 number of beds, the same number of night stands,
4 dressers and mirrors for that suite, for that period.

5 MR. KINCAID: Yes. We can provide that.

6 MR. BENEDICK: Okay. Mr. Bassett?

7 MR. WYATT BASSETT: You're going to get
8 pretty close to the same number of all those different
9 pieces. It's not going to be exact. If the time of
10 measurement was when we shipped the floor samples out
11 to the retailers, you find that to be pretty much
12 right on the money. After that, because even though
13 probably 90, 95 percent -- I think Harold Hewitt said
14 90 percent of his customers bought it in suites, you
15 occasionally get someone who comes in and buys a piece
16 or two pieces. Because of that, the numbers won't be
17 exact, but absolutely they'll be representative of
18 that suite.

19 MR. BENEDICK: Mr. Spilman?

20 MR. SPILMAN: The same is true with us. We
21 sell the merchandise in suites. However, some of our
22 suites may stay in the line for a number of years and
23 a consumer may want to add a piece, et cetera, down
24 the road, a year down the road and they want to add
25 another night stand, for example. So for that reason,

1 the numbers do not match exactly to the number on the
2 pieces that comprise the suite, however, they are very
3 close.

4 MR. BENEDICK: Okay. Let me ask all three
5 of you again, you've indicated that you've invested
6 in -- it sounds like sort of computer-aided design,
7 computer-aided manufacturing with your cutting. Have
8 these investments taken place during our period of
9 investigation, which starts January 2000? Or were
10 they taken prior to that period?

11 MR. KINCAID: They have taken place before
12 and during the investigation period.

13 MR. BENEDICK: Mr. Bassett?

14 MR. WYATT BASSETT: They've taken place
15 before and during the investigation period.

16 MR. SPILMAN: The same.

17 MR. BENEDICK: Okay. Now, would those
18 efforts, then, increase your productivity and, as a
19 result, increase your total capacity to produce?

20 MR. KINCAID: Yes, it would improve our
21 competitiveness for the investment in the equipment.
22 The issue has been that our business has decreased and
23 we're operating at less capacity, so we're not
24 covering our overhead.

25 MR. BENEDICK: I understand that, but the

1 question was did that increase your capacity, total
2 production capacity? Did these investments increase
3 your total production capacity?

4 MR. KINCAID: Yes, they would.

5 MR. BENEDICK: Mr. Bassett?

6 MR. WYATT BASSETT: Some of the equipment
7 replaces less efficient equipment and in that case
8 you're improving your productivity. A majority of the
9 equipment both improves your productivity and does
10 increase your production capacity.

11 MR. BENEDICK: Okay.

12 MR. WYATT BASSETT: Unfortunately for us, we
13 have not gotten the productivity benefit that we
14 should have gotten for producing it because we're
15 operating at well below capacity.

16 MR. BENEDICK: Okay. Mr. Spilman?

17 MR. SPILMAN: Our investment in equipment
18 over this period of time has been basically to improve
19 productivity. Theoretically, it could improve
20 capacity; however, with the incoming order situation
21 we've not been able to really prove that to be true.

22 MR. BENEDICK: This might be confidential
23 and, if it is, please feel free to answer in the
24 post-conference brief as opposed to here, but at what
25 point in terms of level of capacity utilization would

1 you achieve the efficiencies that you wanted to with
2 this investment? Is it at 70 percent capacity
3 utilization, 85 percent, 90 percent?

4 MR. KINCAID: We would be 85 plus.

5 MR. BENEDICK: Okay.

6 MR. WYATT BASSETT: I think we'd see a lot
7 more benefit of it at 85 plus. Absolutely.

8 MR. BENEDICK: Mr. Spilman?

9 MR. SPILMAN: I don't know that I really
10 know that number, frankly, off the top of my head.

11 MR. BENEDICK: Okay. But 85 percent is when
12 you would really start seeing a significant increase
13 in these efficiencies and lower your cost of
14 production as a result?

15 MR. WYATT BASSETT: That's correct.

16 MR. BENEDICK: And based on what you've
17 said, I presume you are looking at lowering the cost
18 of producing a suite, as opposed to an individual
19 piece of furniture.

20 MR. WYATT BASSETT: That's correct. And to
21 say 85 plus would have a very positive effect on our
22 productivity is absolutely the way it is. Frankly,
23 any marginal improvement will also result in improved
24 productivity.

25 MR. BENEDICK: I understand. Okay.

1 I'd like to shift to the demand side and I'd
2 like to direct some of these questions to Mr. Loring,
3 Mr. Brown and Mr. Hewitt.

4 First of all, Mr. Loring, you had indicated
5 that the Chinese products coming in are copies of U.S.
6 producers' product, so I presume by that what you're
7 seeing and perhaps the other gentlemen as well are
8 seeing the same kind of product coming from China
9 that's being produced here in the U.S., we're not
10 seeing something of a different style or type.

11 MR. LORING: That's correct.

12 MR. BENEDICK: What about quality
13 differences between what you see from China and what
14 you see from U.S. producers?

15 MR. LORING: I have seen in the last three
16 years the quality improve substantially and being to
17 approach what you could buy from the American market.
18 Keep in mind that the American market, as we've heard
19 from the different suppliers here, has low priced, low
20 quality or low work quality right up to high priced,
21 solid wood higher quality, so you can find anything
22 you want. If you go to the Chinese product, you can
23 find something that matches it here.

24 MR. BENEDICK: Okay. I'm a little confused.
25 You said it's approaching the quality of the U.S.

1 producer so -- and maybe we should step back one step.
2 What distinguishes a low quality from a medium quality
3 from a high quality bed or any other piece of bedroom
4 furniture for that instance?

5 MR. LORING: Well, the most important thing
6 would be the way the customer perceives it, but the
7 way the professional buyer would perceive it would be
8 fit and finish, general construction detail.

9 MR. BENEDICK: Okay. So is most of the
10 Chinese stuff being sold as low quality furniture?

11 MR. LORING: No, it's coming right across
12 the board now. They're aiming at each segment.

13 MR. BENEDICK: Okay. In the high quality
14 segment, is the Chinese furniture the same quality as
15 the U.S. producers?

16 MR. LORING: I'd have to say it's very
17 similar. I can't say it's exactly the same. It's
18 subjective. It's not something we can measure
19 exactly.

20 MR. BENEDICK: You had suggested that it's
21 improved significantly over the last three years.
22 What's been the time path of that change? Has it just
23 been in the last 12 months that it's really approached
24 close to the quality of U.S. or did most of that take
25 place, let's say, in the year 2000?

1 MR. LORING: I would say it's been gradual.
2 My initial contact with the product was that it wasn't
3 up to the American standards. Now, it's coming in
4 there, over the last three or four years, it seems to
5 be getting better.

6 MR. BENEDICK: Other gentlemen, do you have
7 the same experience?

8 MR. HEWITT: I agree with Mr. Loring.

9 MR. BENEDICK: Okay. And I suppose the
10 quality at the medium level and at the low level, the
11 Chinese quality has come closer to the U.S. producers'
12 quality?

13 MR. LORING: I can't speak for the lower
14 level, I don't look at that produce. I don't shop it.

15 MR. BENEDICK: Okay. Mr. Hewitt?

16 MR. HEWITT: I don't shop it either, but the
17 middle line is about the same.

18 MR. BENEDICK: Okay. About the same.

19 MR. HEWITT: About the same.

20 MR. CARPENTER: Excuse me, gentlemen. Could
21 I ask each of you when you respond to the questions to
22 bring the microphone a little bit closer? Thank you.

23 MR. BENEDICK: Could the three of you
24 explain to me the importance of brand names in terms
25 of consumer demand and how much they're willing to pay

1 for the product? Is there a difference between a
2 U.S.-produced product and the Chinese product in terms
3 of the brand name?

4 MR. HEWITT: Quite naturally, there's a
5 difference in the brand name. A customer will pay
6 more for a Bassett than they will not a brand name,
7 but at the same time, now the quality of the product
8 coming from overseas is equal to that and usually the
9 price is 30 percent less. Is that what you're asking
10 me?

11 MR. BENEDICK: Well, what I guess I'm trying
12 to get at is there more branded name product on the
13 domestic producer side than there is on the imported
14 Chinese side?

15 MR. HEWITT: Oh, absolutely. No one knows
16 any Chinese brand names.

17 MR. BENEDICK: Okay. And then when the
18 customer looks at fit and finish, you look at fit and
19 finish, and is willing to pay more based on a higher
20 quality, is that based primarily on a brand name? If
21 you buy a Bassett you assume that you're getting top
22 quality product?

23 MR. BROWN: Yes. Bassett's been in business
24 a hundred years and it has a very recognizable name.
25 I believe it's one of the five or ten most

1 recognizable in the country.

2 MR. BENEDICK: So if a customer was going to
3 pay more for furniture based on the quality of the
4 furniture, he would go to a brand name.

5 MR. BROWN: Yes. Absolutely.

6 MR. BENEDICK: Okay. Are there imported
7 Chinese products that are brand name products
8 recognized in the market?

9 MR. BROWN: Not to my knowledge.

10 MR. BENEDICK: And yet they sell high
11 quality products that compete with the brand name?

12 MR. BROWN: At a lower price.

13 MR. CARPENTER: At a lower price. How can
14 that be, if that high quality is because of a
15 perception through an awareness of the brand name?

16 MR. BROWN: I'm not an economist, but I hear
17 many different stories of why and part of it is what
18 we're talking about today, it's the dumping. You look
19 at a comparable product that Bassett puts out for
20 \$1200 and it could be anywhere from \$600 to \$800 made
21 in China.

22 MR. BENEDICK: Do you sell both the brand
23 name and the Chinese product in your store?

24 MR. BROWN: No, sir, only Bassett. Only the
25 brand name.

1 MR. BENEDICK: Do either of you?

2 MR. HEWITT: I do.

3 MR. BENEDICK: And do they compete head to
4 head?

5 MR. HEWITT: They compete head to head in
6 probably equality, but price, the Chinese product is
7 quite a bit cheaper.

8 MR. BENEDICK: Then why are you selling the
9 U.S. produced products?

10 MR. HEWITT: People just want to buy that
11 style.

12 MR. BENEDICK: Okay. So there's a
13 preference for that brand name over the Chinese for at
14 least some portion of consumer demand.

15 MR. HEWITT: It's diminishing lately. It's
16 going down greatly. The customer now is coming to
17 look at a table, the product. So the product looks
18 good, it's 30 percent cheaper, the brand name is not
19 as important as it used to be.

20 MR. BENEDICK: Do any of you gentlemen sell
21 Bentwood bedroom furniture?

22 MR. HEWITT: I don't.

23 MR. BROWN: No.

24 MR. LORING: No.

25 MR. BENEDICK: Okay. Can you explain to me

1 what are the principal drivers of U.S. demand for
2 wooden bedroom furniture, as we've defined it?

3 MR. LORING: New housing starts, people get
4 married, get divorced, get a new bedroom. Have a
5 baby. So as long as we have strong housing starts and
6 a strong economy, we see demand for bedrooms.

7 MR. BENEDICK: Well, we haven't had a real
8 strong economy, but we've had real strong housing
9 starts. Is a strong economy an important ingredient
10 that drives demand in the U.S., total demand?

11 MR. LORING: I would say confidence in the
12 economy is a very important factor.

13 MR. BENEDICK: Okay. And the fact that
14 we've had these housing starts at record numbers in
15 the last two or three years, has that been the
16 principal driver of demand, total demand in the U.S.,
17 for wooden bedroom furniture?

18 MR. LORING: I can just say from our
19 experience that our sales mirror that, as housing
20 starts are stronger, our sales in all categories of
21 home furnishings have been strong. We may be an
22 exception because we're in the northeast, but that's
23 our experience.

24 MR. BENEDICK: What about product cycles in
25 this industry? What role does that play in demand?

1 Do you have to turn over with a new product every so
2 often to get people to buy furniture or do you stick
3 with a certain product for five, six, seven, eight or
4 more years?

5 MR. HEWITT: Basically, as long as it moves,
6 as long as it sells, we stay with it. Once a
7 particular style no longer moves or we no longer get
8 the movement from the slot, we have to discontinue it
9 and get something else.

10 MR. BENEDICK: How long does that typically
11 last?

12 MR. HEWITT: It could be six months or five
13 years.

14 MR. BENEDICK: Six months, five years?

15 MR. HEWITT: I've got product on my floor
16 that's been there for 12 years. I've got other
17 product that will be gone next market.

18 MR. BENEDICK: Is there sort of a typical
19 pattern or number?

20 MR. HEWITT: Customer desire.

21 MR. LORING: It's evaluated every six
22 months, every market not producing adequate numbers,
23 the lot goes away and you replace it with something
24 new.

25 MR. BENEDICK: I see.

1 Mr. Brown?

2 MR. BROWN: We analyze every six months
3 before market our rate of sales, whether it deserves
4 to be on the floor or it doesn't. We have staples, as
5 the other gentlemen said before me, that have been on
6 the floor for many years, such as the Louis Philippe
7 Collection. That will be there forever, hopefully.
8 But the factories are always trying to produce new
9 groups and we're always trying to turn over the lower
10 part of our business to increase our sales.

11 MR. BENEDICK: Okay. Are the preponderant
12 portion of you sales of these products that have been
13 there for a long time or is it the new products that
14 keep coming in?

15 MR. HEWITT: Could you repeat the question?

16 MR. BENEDICK: Is the majority of your sales
17 of those products that are stable, that have been
18 there for a long time?

19 MR. HEWITT: Yes. Regular running
20 merchandise.

21 MR. BENEDICK: Okay. Or is it the new
22 products that keep coming on?

23 MR. HEWITT: That's difficult to answer,
24 depends on what you bring in. I mean, what's on the
25 market this last market may not have been as

1 acceptable as what we've had over the years, so it may
2 not sell as well.

3 MR. BENEDICK: I see. Well, what's been
4 your experience over the last three years?

5 MR. HEWITT: It's been a tough market all
6 the way around.

7 MR. BENEDICK: So you really can't say that
8 the majority of your sales were with the more stable
9 groups or --

10 MR. HEWITT: The more stable groups have
11 been there, they're going to be there constantly.

12 MR. BENEDICK: Right. But does that
13 constitute the majority of your sales over the last
14 three years?

15 MR. HEWITT: I wouldn't say so, but
16 I couldn't answer that.

17 MR. LORING: By the way that we analyze it,
18 the median product is going to stay on the floor, the
19 good sellers, and the slow sellers are going to be
20 replaced by new product. So if that new product is a
21 good decision or particularly well accepted by the
22 consumer, that's going to move into the range of the
23 median product, it may even push the median product
24 down on the scale of what's selling and what's not.

25 MR. BENEDICK: What's been your experience

1 over the last three years?

2 MR. LORING: Our experience is that we have
3 some new product that's doing extremely well and
4 that's replacing older product. The Louis Philippe,
5 for example, was pushed off the floor, was
6 discontinued by Vaughan Bassett. We didn't buy it
7 from the Chinese manufacturers, so that's been
8 replaced by new product that we've been bringing in to
9 try to fill that slot, if you will. It's all based on
10 activity.

11 MR. BENEDICK: So for you, new product has
12 constituted the majority of your activity over the
13 last three years.

14 MR. LORING: I would say it would constitute
15 at least half of the activity.

16 MR. BENEDICK: Okay.

17 MR. LORING: The other half would be stable.

18 MR. BENEDICK: Okay.

19 MR. LORING: Earning its keep.

20 MR. BENEDICK: Right.

21 How about you, Mr. Brown?

22 MR. BROWN: I think it's close to 50/50.

23 The staples have been there and have produced for us.

24 The new product -- it might be 60/40.

25 MR. BENEDICK: Okay. I'd just like to throw

1 one more question out and that's just a matter of
2 curiosity. There's Bassett Furniture, there's Vaughan
3 Bassett and there's Vaughan Furniture. Is there any
4 relationship among those firms?

5 MR. DORN: I'm not smart enough to answer
6 that.

7 MR. JOHN BASSETT: I am John Bassett and my
8 father was chairman of Bassett Industries. My
9 grandfather started Bassett Industries and my nephew
10 runs Bassett Industries. Twenty years ago, I went to
11 Galax, Virginia and joined Vaughan Bassett Furniture
12 Company that my grandfather and my wife's grandfather
13 started. Wyatt Bassett is now the Executive Vice
14 President of that Company.

15 Mr. Vaughan had a brother and that brother
16 started another company in Galax called Vaughan
17 Furniture Company. So we are all related, but we all
18 compete with each other.

19 MR. WYATT BASSETT: There's no corporate
20 relation whatsoever.

21 MR. BENEDICK: Okay. Thank you for that
22 explanation.

23 No further questions.

24 MR. DORN: Can I make just one additional
25 response to Mr. Benedick's question about branding?

1 My understanding is that there is a lot of Chinese
2 product that comes in and is sold under U.S. brands.
3 I mean, they're not brands that were established in
4 China, but they're sold under U.S. brands and, in
5 fact, a customer wouldn't know when he buys a branded
6 piece whether it's made in the United States or China,
7 perhaps. So Chinese product is being sold in branded
8 channels, it's just that the brands don't start in
9 China, they start in the United States if that
10 explains it.

11 MR. DEYMAN: George Deyman, Office of
12 Investigations.

13 In Exhibit 40 of your petition, you have a
14 press clipping and there's a quote in the press
15 clipping by an official in China who said that, "The
16 furniture industries in the two countries can
17 complement each other as the United States makes high
18 end furniture and the Chinese industry focuses on
19 middle and low grade furniture."

20 I know that Mr. Allen has already given
21 testimony on this fact. Is there anything more that
22 you would like to say about that contention, that the
23 U.S. is in the high grade and the Chinese are not?

24 MR. DORN: I don't know where you heard it,
25 it's not true. I mean, the Chinese are in from the

1 low end to the high end and the U.S. producers are
2 from the low end to the high end, so it's a continuum
3 of domestic product and Chinese product.

4 MR. JONES: Mr. Deyman, Steve Jones. You
5 will see, I believe, also in the questionnaire
6 responses that there are some domestic producers who
7 consider themselves to be in the high end of the
8 market who are being adversely affected by imports
9 from China and who are supporting the petition.

10 MR. DEYMAN: Actually, among you here at
11 this table, how would you characterize your own
12 production? Are you high end or middle grade or low
13 grade producers? Or, if you don't want to answer that
14 question here, you can answer it in the
15 post-conference briefs.

16 MR. WYATT BASSETT: We cover everything from
17 low end to upper medium, so we cover probably in the
18 neighborhood of 60 percent to two-thirds of the
19 market.

20 MR. VAUGHAN: Mr. Deyman, speaking for
21 Vaughan Furniture, we would consider ourselves in the
22 middle end of the market.

23 MR. KINCAID: The La-Z-Boy Casegoods
24 companies would cover the spectrum. With Lee, we're
25 more promotional. American Drew, Kincaid would be

1 more in the medium to medium high. Pennsylvania House
2 would be more at the high end, so we would go from
3 promotional all the way up through the high end. The
4 American Martinsville hospitality segment is in the
5 medium price for that industry as well.

6 MR. ALLEN: We would be in the promotional,
7 Mr. Deyman, Michels and Pilliod.

8 MR. WYATT BASSETT: The middle and the upper
9 middle for Bassett.

10 MR. DEYMAN: And have you found in recent
11 years with what you say is increased competition from
12 imports, China and/or other countries, have you
13 shifted the grade range of your production? Are you
14 moving higher or moving lower? If you could answer
15 that, please.

16 MR. WYATT BASSETT: To be honest with you,
17 we're kind of running all over the place. To quote --
18 I can't remember who it was, we're running where they
19 ain't, but the problem is there ain't anywhere left
20 that they're not running. We've run to a higher end
21 of bedroom, to more solid wood product, but they've
22 gone there, too. We've run to more promotional price
23 points, but they've undercut us on price there, too.
24 We have run, to some extent, to other product
25 categories like dining rooms and have basically been

1 run out -- for that portion of the product, out of any
2 end of the bedroom market.

3 MR. VAUGHAN: We've stayed basically where
4 we've been.

5 MR. SPILMAN: Same for us. We've stayed
6 basically where we've been.

7 MR. KINCAID: As well, our companies have
8 stayed pretty much where they fall within the market
9 segment as well.

10 MR. DEYMAN: All right. Thank you. And my
11 last question is when did you first become concerned
12 about the effects of the imports from China? Is it a
13 recent occurrence, that is, during the period for
14 which we're collecting data in the investigation, that
15 is, since January 2000, or does it extend back for
16 many years?

17 MR. JOHN BASSETT: As I understand the
18 question, you want to know when we became interested
19 in this proceeding? Is that the question?

20 MR. DEYMAN: When you first saw significant
21 competition from China for your firm's sales.

22 MR. JOHN BASSETT: Well, we've seen
23 competition from China for 10 years or so, but in the
24 last three years, we've seen very intense competition
25 from China. And I think if you look at the charts

1 that we've shown you earlier, that the increase has
2 been dramatic, certainly in the last two to three
3 years.

4 MR. WYATT BASSETT: I've been traveling over
5 there for about 10 years. I'd say it was in the
6 neighborhood of three to three and a half years ago
7 that we first started seeing the rate of expansion on
8 the part of all these Chinese plants explode like they
9 have an certainly in the last three years the prices
10 have dropped so dramatically. That's when we became
11 concerned that we literally could lose the entire
12 industry.

13 MR. VAUGHAN: When we got concerned was when
14 they got into the bedroom business, which is what we
15 do.

16 MR. DEYMAN: Which was about when?

17 MR. VAUGHAN: About three years ago, three,
18 three and a half years ago.

19 MR. SPILMAN: We really became concerned
20 when we started closing plants and displacing our
21 workers and that was some three years ago, 2000, 2001
22 was when it really -- and it has just picked up steam
23 since that point in time.

24 MR. DEYMAN: Very good. I thank you very
25 much for your testimony. I have no further questions.

1 MR. CARPENTER: I have a few follow-ups.

2 Mr. Allen, if I could start with you, you
3 indicated that you're primarily in the lower quality
4 end of the spectrum. Why are the Chinese now pursuing
5 sales in the lower quality end if transportation costs
6 are important and that is a particular disadvantage to
7 them?

8 MR. ALLEN: It's my belief that it's a
9 capacity situation. They're bringing on plants so
10 much faster than they did before and the big are
11 getting bigger, which therefore the smaller producer
12 in China, they have to make something, so they're
13 coming down to the lower price points now or bringing
14 the price down and dumping at, let's say, the middle
15 price point down to the lower price point. The
16 quality spectrum as we look at it is, you know, the
17 good, better, best. We approach it as a pricing issue
18 and in the questionnaire our prices go from like 350,
19 I think, to 849, I think we listed. So I think it's
20 they've just got tons of capacity and they're going to
21 utilize it and bring it in. And even taking print,
22 which to them, you know, they've never done before,
23 has very low prices. So I believe it's the over
24 capacity that we're seeing.

25 MR. CARPENTER: Thank you.

1 MR. DORN: Can I mention one other thing
2 that's been mentioned to me? That is that in recent
3 years the Chinese importers have started inventorying
4 product on the East Coast and the West Coast and so
5 they are able to bring in even the good quality, the
6 promotional quality product, in such large container
7 programs that they can do it more efficiently than
8 they could do in the past and the warehouse it in the
9 United States and that reduced the freight issue for
10 that category of merchandise.

11 MR. CARPENTER: Okay. Thank you.

12 Mr. Bassett, if I could turn to you next, in
13 response to Mr. Benedick, you said the prices to
14 retailers are quoted on a suite basis. What I'm
15 trying to get at is there a standard configuration of
16 a suite in terms of what you sell? For example, one
17 bed, one chest, one dresser, two night stands? Or
18 does the configuration of a suite vary from one
19 retailer to another?

20 MR. WYATT BASSETT: It primarily varies in
21 geographical locations. Within a geographical
22 location, you're going to find that those retailers
23 compete largely, if not totally, on the same
24 combination of pieces for what they call a suite.
25 When I started in this business, the way we quoted

1 most of the time in the eastern part of the United
2 States and southeast was a suite was a dresser,
3 mirror, chest and bed. If you were quoting the New
4 York market, you quoted a dresser, mirror, armoire,
5 bed and two night stands. If you were quoting in
6 California, you quoted dresser, mirror, bed, night
7 stands.

8 While these are different ways of defining a
9 suite across the country, the retailers across the
10 country, the retailers within that geographic region,
11 though, ask for all those quotes the same way. In
12 other words, those retailers were competing on the
13 same combination.

14 MR. CARPENTER: Do retailers often ask you
15 for quotes based on different configurations, even
16 within the same market area, on different
17 configurations of suites?

18 MR. WYATT BASSETT: Typically, when you know
19 where the retailer is coming from, there's a typical
20 way to quote it to him. Typically, that's going to be
21 the way you quote it to him. No. The vast majority
22 of the time that's going to be what he wants.

23 MR. CARPENTER: Okay. Thank you.

24 Messrs. Loring, Brown and Hewitt, could
25 I ask you the same question, since you're purchasers?

1 Do you offer different configurations of suites or how
2 do you market the product?

3 MR. HEWITT: We market the product by
4 dresser, mirror, headboard/footboard, and chest.
5 Night stand is an optional item. That's the way we
6 buy it also. That's the way we price it, that's the
7 way we price it from the manufacturer.

8 MR. CARPENTER: And that's consistent?

9 MR. HEWITT: Dresser, mirror, chest,
10 headboard/footboard. Night stand is an option.

11 MR. CARPENTER: Mr. Loring?

12 MR. LORING: We have a similar presentation,
13 although we separate the dresser, mirror, chest from
14 the bed, so it's two decisions and then the customer
15 selects either one or two night stands, but it's still
16 a bedroom set when they're done with the transaction.
17 That's just typical to our area, dresser, mirror,
18 chest. Somebody might want to buy instead of one
19 chest an armoire. That would replace the chest with
20 the armoire, but it's still the same number of pieces,
21 typically, like you would probably have in your
22 bedroom, the same number of pieces.

23 MR. CARPENTER: Okay. Thank you.

24 Mr. Brown?

25 MR. BROWN: Typically, we show the whole

1 suite. However, we promote the suite as the dresser,
2 mirror, bed and chest.

3 MR. CARPENTER: When you say you show the
4 whole suite, how many pieces would that be?

5 MR. BROWN: We'll show the armoire as well,
6 we'll show the night stands as well.

7 MR. CARPENTER: Okay. But you would price
8 it according to the standard suite without those
9 additional pieces.

10 MR. BROWN: Exactly.

11 MR. CARPENTER: But then you would have
12 separate prices for those pieces as add-ons.

13 MR. BROWN: Yes.

14 MR. CARPENTER: Okay. Thank you.

15 Next, I wanted to get to the differences in
16 quality. I've heard some discussion and Mr. Deyman
17 had gotten into this, some discussion about high,
18 medium and low and I heard about medium high and good,
19 better, best. I'm just wondering to what extent there
20 is sort of a standard recognition within the industry
21 that there is, let's say, a good, better and best
22 level of quality and maybe if I could start with the
23 purchasers again and ask you to explain what levels of
24 quality product that you offer to your customers and
25 do you offer good, better, best, all three, or just

1 one or two?

2 MR. HEWITT: Traditionally or mostly it will
3 be the first two. The bottom is medium to lower
4 medium. The upper end, we just don't have the market
5 for that, so we start off with good and go to better,
6 we don't go to best.

7 MR. CARPENTER: Okay. When you say low to
8 medium and medium to high, I'm wondering, are you
9 saying that there's no clear distinction between good,
10 better and best?

11 MR. HEWITT: It's probably a distinction by
12 price point.

13 MR. CARPENTER: By price point?

14 MR. HEWITT: So our high end in a four-piece
15 bedroom group would be around \$2500 and there's such a
16 market I'm sure at \$5000, \$6000, probably higher, the
17 high end market. And then we'd start at a four-piece
18 group at, say, \$1000. So my market goes from \$1000 to
19 \$2500 retail.

20 MR. CARPENTER: Okay.

21 Mr. Loring?

22 MR. LORING: We'd be more in the medium
23 price category. We wouldn't carry the lower price,
24 which would be the printed product that's been
25 discussed, stapled drawer interiors and paper drawer

1 interiors. We'd be the medium and the higher end of
2 medium, which includes a lot of solid wood and wood
3 veneers. No prints or even in some cases the lower
4 end product has plastic. The consumer can see the
5 difference and that determines the price, the actual
6 components that are used to construct it.

7 MR. CARPENTER: When you say medium and
8 high, do you mean you would typically offer two
9 different suites to your customers or would there be
10 more than that?

11 MR. LORING: There would be several suites
12 in the same price range, let's say the \$2000 to \$2500
13 price range, but there wouldn't be any in the lower
14 price of \$600, \$700. We have a specialty store, we
15 don't have as broad a spectrum as some other retailers
16 might have.

17 MR. CARPENTER: I see. And the \$2000 to
18 \$2500 would be the medium price point?

19 MR. LORING: Medium. It could be perceived
20 as a higher end product, depending on what else the
21 customer has seen that day.

22 MR. CARPENTER: Do you offer a high end
23 product at a more expensive price?

24 MR. LORING: I would have to say, no, we
25 don't go up to the real high end products.

1 MR. CARPENTER: I see.

2 Mr. Brown?

3 MR. BROWN: We start at approximately \$1500
4 and go to approximately \$5000.

5 MR. CARPENTER: I see. That's a pretty good
6 range. What categories would you consider those to
7 fall in again?

8 MR. BROWN: Medium, medium high.

9 MR. CARPENTER: I see. Okay.

10 MR. BROWN: We have a little bigger box than
11 the other two gentlemen, so we have more room to
12 display our merchandise.

13 MR. CARPENTER: Okay. And I'll throw this
14 open to anyone, would anyone venture to make an
15 estimate as to what percentage of U.S. production
16 would fall into the different categories of good,
17 better and best or low, medium, high?

18 MR. WYATT BASSETT: In trying to define
19 what's low, medium, high, is I don't want to say
20 impossible today, it's going to be next to impossible.
21 Price is such an overriding consideration and what is
22 today distinguishing furniture into low, medium and
23 high that I think, as you've heard today, that's the
24 main criteria on which people are doing it. With the
25 rate that prices have been dropping, it's blurred what

1 is the difference between low, medium and high.
2 I honestly don't know how to start with that process
3 because it's gotten so blurry.

4 MR. CARPENTER: I can appreciate that, but
5 is there any way to look at it from a quality
6 perspective, just forgetting about price for the
7 moment? Is there still a blurred distinction in terms
8 of quality between good, better, best or is there a
9 fairly clear distinction?

10 MR. WYATT BASSETT: There's not a clear
11 distinction. I don't know where you draw the line.

12 MR. DORN: With respect to the ITC
13 questionnaires, I probably got more questions on that
14 than any others. People say what does that mean? I
15 can't remember if we used low, medium and high or
16 good, better and best, but, anyway, it's not a
17 terminology that's understandable. They're not
18 industry criteria that would lead somebody to
19 categorize the goods into those distinct categories,
20 as I understand it.

21 MR. CARPENTER: Okay. My question was going
22 to be -- and maybe it's more one for the
23 post-conference briefs, again, if there's any way you
24 can attempt to estimate what percentage of U.S.
25 production and what percentage that the Chinese

1 imports would tend to fall into these different
2 categories. If you want to think about it some more
3 and maybe after you analyze the questionnaire
4 responses, if you have any thoughts on that, I'd
5 appreciate it.

6 MR. DORN: We'll give it a try.

7 MR. CARPENTER: Okay. Thank you.

8 Does the staff have any other questions?

9 Mr. Fischer?

10 MR. FISCHER: Fred Fischer, Office of
11 Investigations. I know we're running long here.
12 I just have two very, very brief questions.

13 Mr. Hewitt, Mr. Loring, Mr. Brown, what's a
14 typical retail markup or margin between what you
15 purchase furniture and what you typically sell it for?

16 MR. LORING: Do you want the industry
17 average?

18 MR. FISCHER: Yes, you don't need to reveal
19 your own particular company, but industry average.

20 MR. LORING: I would say it's probably
21 published somewhere between 42 and 48 percent.
22 Manufacturers would like us to work at 30. The
23 retailers will all tell you they're working at 50.

24 MR. FISCHER: Is that typical, Mr. Brown?

25 MR. BROWN: Yes, sir.

1 MR. WYATT BASSETT: Can I make one
2 clarification?

3 MR. FISCHER: Sure.

4 MR. WYATT BASSETT: Because I've been
5 working with this a while. I think you said markup.
6 So people understand what they're talking about, it's
7 not a markup, it's a gross profit margin.

8 MR. FISCHER: Correct. I had said markup or
9 margin, however you wanted to interpret it.

10 MR. WYATT BASSETT: I just wanted to make
11 sure it's clear.

12 MR. FISCHER: Thank you.

13 And then, Mr. Bassett, one last question.
14 You said you've been to China over the years and seen
15 some of their facilities. How does the Chinese
16 production process differ from yours and have you seen
17 a change recently, in the last three or four or five
18 years?

19 MR. WYATT BASSETT: When I first started
20 going over there ten years ago, nine years ago, there
21 was very little bedroom made at that point, to start
22 with. The types of products they made were things
23 that were generally more labor intensive, occasional
24 tables, dining room tables, chairs. These are very
25 labor intensive type products. Versus, say, bedroom

1 cases.

2 The plants back then were not that well
3 equipped, they used a lot of labor in substitute of
4 where a plant here that might have made one of those
5 products would use more capital instead of labor,
6 capital equipment.

7 Today, there are very few, if any,
8 occasional tables made in the U.S., there are very few
9 chairs made in the U.S., there are very few dining
10 room tables. That's virtually gone all offshore.

11 Some time in the latter part of the '90s,
12 you saw more bedroom plants coming on line and they
13 looked a little more advanced than what we had seen in
14 terms of the dining room table and dining room chair
15 and occasional table plants, but really in the last
16 certainly two to three years we've seen the equipment
17 that's gone into those plants are equipment more
18 similar to what we would have. It's not necessarily
19 the computer-controlled equipment, but it is something
20 to where they can do -- it's more volume oriented,
21 I would say, than efficiency oriented. There's only
22 so much you can do by hand. Physically, you can't get
23 but so many people in a room working on a piece of
24 furniture. Bringing in equipment has allowed them to
25 up that capacity a good amount.

1 I would put our factories ahead of any
2 factories over there in terms of the equipment we
3 have, both in terms of being technologically advanced
4 and making us more efficient, but they've definitely
5 closed the gap over the last three, four years.

6 MR. FISCHER: Thank you for your answers.

7 Does anyone else have anything to add?

8 (No response.)

9 MR. FISCHER: Thank you all for your
10 testimony.

11 MR. CARPENTER: Mr. Reynolds?

12 MR. REYNOLDS: Thanks very much for all your
13 testimony because it's been very helpful and very
14 informative and it's really helped us, I think,
15 understand the market.

16 A couple of quick questions, hopefully.

17 Are there styles of furniture that the
18 Chinese are better at than other styles? For example,
19 are they better at traditional American or French
20 colonial or Louis XIV as opposed to mission or do they
21 produce all the styles you produce?

22 MR. WYATT BASSETT: Working from the
23 standpoint of just logically what would I think they'd
24 be better at, I think they'd be better at higher labor
25 intensive styles, things with carving or fancy veneers

1 or things of that nature. The fact of the matter is
2 the real surge in imports from China that we've been
3 faced with in the last year, two years, two and a half
4 years, has been in the exact same type of furniture
5 that we manufacture. It's not been in any particular
6 style, it's been across the board.

7 You can look at pictures of furniture of
8 Louis Philippe, Mission, Shaker, all of which are
9 simple to make when it comes to the amount of labor
10 you have to put in and it doesn't take a lot of labor.

11 By the same token, there was plenty of
12 carved furniture being made in this country before the
13 Chinese ever made any carved bedroom furniture for
14 export in the United States. In fact, most of the
15 carved furniture you see coming out of China is a
16 knock off of a higher priced carved piece that's come
17 out of the United States. But where logic might have
18 told you it would be concentrated in that end, it's
19 not. They're producing furniture that competes with
20 everybody here and pretty much across our entire
21 lines. And there's no logic to them concentrating in
22 one end or another.

23 MR. REYNOLDS: And everyone agrees with
24 that? Thanks. Thank you very much.

25 MR. DORN: If I might just add one thing,

1 the other thing that I've heard is that a lot of the
2 Chinese furniture is designed by U.S. designers.

3 MR. REYNOLDS: Great. That was helpful.
4 Thanks.

5 MR. WYATT BASSETT: I'd add one thing. I'm
6 not aware of any Chinese furniture that either wasn't
7 designed by a U.S. designer or knocked off of an
8 American product. I don't know if anyone knows
9 differently.

10 MR. REYNOLDS: Great. Thanks.

11 I know that you may not have direct
12 experience of it and necessarily have numbers on this,
13 but I did want to give everybody here the opportunity
14 to address one of the issues raised by Mr. Greenwald,
15 counsel for the Chinese producers and importers, which
16 is he said that what's going on here in the market is
17 the result of comparative cost advantages between the
18 two countries. I think what that means is that China
19 has presumably very significantly lower labor costs
20 than we do here and what we're seeing is simply a
21 result of that economic competition between markets,
22 especially as China becomes more quality oriented and
23 becomes capable of producing products that are the
24 same quality as yours.

25 Do you agree with that factually? Do they

1 have a comparative cost advantage? I know Mr. Vaughan
2 had commented on that earlier.

3 MR. DORN: Let me just say from a legal
4 perspective, since this is an antidumping case, it's
5 not a safeguards case, so I'm not sure what
6 comparative advantage has to do with it. If they can
7 convince the Commerce Department, as Mr. Greenwald
8 apparently thinks that they can, that they're not
9 dumping, a huge margin of dumping, then to the extent
10 they have any comparative advantage, they'll prevail.
11 The reason we are here is we think they're dumping and
12 we think they're taking unfair advantage of their
13 unfairly priced imports.

14 MR. REYNOLDS: That was going to be my next
15 question. I just wanted to give you the opportunity
16 to address what I assume Mr. Greenwald will address,
17 but I also still wanted factually to know whether
18 people agreed with that concept, the two issues, one
19 legal and factual. Analytically, the question remains
20 whether we can take it into account. Do you agree
21 that there is a comparative cost advantage on China's
22 behalf, factually, vis-a-vis United States producers?

23 MR. DORN: How do we measure their costs
24 since it's a non-market economy country, they're
25 heavily subsidized. You have a lot of state-owned

1 enterprises and they manipulate the currency. How are
2 we going to do a cost comparison?

3 MR. REYNOLDS: Okay. You're right. This is
4 the Department of Commerce's issue and they're going
5 to decide whether that's a non-market economy. And
6 I am not a subsidies person, I'm not a non-market --
7 we don't calculate dumping duties here, we don't do
8 taxes or production issues here. China has, though,
9 increasingly become more of a market economy,
10 increasingly at least from my perspective. So the
11 question is are there comparative cost advantages?
12 And if you choose to say we don't know enough about
13 it, you can choose to say that.

14 And I'm directing this to the industry
15 people and, actually, if you it's unfair to ask them
16 that, you can say that, Mr. Dorn.

17 MR. DORN: I certainly don't think it's
18 unfair.

19 MR. REYNOLDS: I'll leave the question for
20 Mr. Greenwald, then, and I'll finish up my questions.

21 MR. DORN: We certainly recognize the cost
22 of the labor is lower in China than it is in the
23 United States. On the other hand, the U.S. industry
24 is becoming more and more automated and, in fact, the
25 Chinese industry is becoming more and more automated.

1 You saw that Dalian Huafeng slide, that is a huge
2 automated factory. They're not making labor intensive
3 products, they are producing large volumes of
4 furniture in an automated process and that's not based
5 on any labor comparative advantage.

6 MR. REYNOLDS: Okay. One final comment,
7 which is part of what raised it was Mr. Vaughan raised
8 the issue somewhat. I believe that someone said that
9 there wasn't such a great labor cost between West
10 Virginia production facilities and Chinese production
11 facilities. Was I mistaken on hearing that?

12 MR. VAUGHAN: What I said was that
13 traditionally lower cost of living and lower wages in
14 the Appalachian region were an advantage on pricing
15 for our products.

16 MR. REYNOLDS: Okay.

17 MR. WYATT BASSETT: Mr. Reynolds, I'll take
18 a stab, if you want me to.

19 MR. REYNOLDS: It's okay.

20 MR. WYATT BASSETT: Okay.

21 MR. REYNOLDS: And what I would do is I'll
22 ask -- I think this is something that if you want to
23 address it in a post-conference brief, you can.
24 I would very much welcome Mr. Dorn's and everyone's
25 comments as a legal matter on the analysis that

1 I think Mr. Greenwald has proposed in his opening
2 statement and whether it's appropriate, valid and
3 necessary for us to look at that.

4 MR. DORN: And the short answer is no, but
5 I'll give you a longer answer in the post-conference
6 brief.

7 MR. REYNOLDS: Thanks. Thanks for
8 everything.

9 MR. CARPENTER: Mr. Deyman?

10 MR. DEYMAN: I have one further question.
11 If the Chinese or the producers in other countries or
12 even your domestic competitors for that matter, if
13 they copy one of your styles that you've designed
14 exactly, do you have any legal recourse? Are there
15 any patents in this industry or anything like that?
16 I'm just curious.

17 MR. WYATT BASSETT: This industry, as we
18 look at pictures of furniture you're going to see from
19 the U.S., from China, from anywhere is so derivative.
20 The furniture we produce is intended to look like it
21 was designed or made 100 years ago or 50 years ago or
22 200 years ago. There is very little new going on in
23 terms of furniture styles. In terms of any kind of
24 intellectual property protection you could get, I'd
25 say less than 1 percent of the furniture sold

1 qualifies for any sort of intellectual property
2 protection under any intellectual property laws.

3 MR. DEYMAN: That's helpful.

4 MR. JOHN BASSETT: Many of your furniture
5 designs come out of history. For example, take 18th
6 century or colonial furniture. Well, you don't call
7 it 18th century because it was designed yesterday, it
8 was designed 200 years ago. Victorian furniture was
9 designed during the Victorian period. Louis Philippe
10 furniture was designed in France during the Louis
11 Philippe reign. We draw our furniture designs from
12 history.

13 If you look at the very most expensive
14 furniture you can buy, they are antiques. Nobody buys
15 an antique computer. You spend more money for a new
16 computer and an old computer is worth virtually
17 nothing, but an old piece of furniture, 200 or 300
18 years old, is probably the most expensive piece of
19 furniture you can buy.

20 MR. DEYMAN: Thank you.

21 I have no further questions.

22 MR. CARPENTER: Mr. Benedick?

23 MR. BENEDICK: I have just a couple more
24 questions, two of them are for Mr. Wyatt Bassett.

25 Since you're familiar with the domestic

1 industry and the Chinese industry, is it fair to say
2 that the Chinese despite capital acquisition in that
3 country that their production process for wooden
4 bedroom furniture is still relatively more labor
5 intensive than it is in the U.S.?

6 MR. WYATT BASSETT: I would say it's more
7 labor intensive than what you find in our factories.
8 Again, we're using state-of-the-art production
9 equipment. I think you're going to find that for most
10 of the people, if not all the people, here at this
11 table. As far as the type of product they're making
12 today in volume, again, you see the pictures of what's
13 coming out of Dalian Huafeng and some others, from the
14 beginning, that is not labor intensive product.

15 MR. BENEDICK: No, I didn't say absolutely,
16 I said relative to U.S. production. Or do they have
17 the same type of equipment that U.S. manufacturers
18 have at the cutting edge, so to speak?

19 MR. WYATT BASSETT: They certainly have
20 access to it and they have a lot more of it than they
21 did five years ago. The gap has narrowed
22 dramatically.

23 MR. BENEDICK: Okay. But there's still a
24 gap.

25 MR. WYATT BASSETT: I'd say there is still a

1 small gap.

2 MR. BENEDICK: Okay. A comment was made a
3 little earlier that the cost of labor was less in
4 China than the U.S. What about the cost of capital in
5 China versus the U.S.?

6 MR. WYATT BASSETT: Obviously, I've never
7 bought capital in China, so I don't have personal
8 experience in acquiring capital in China. You can buy
9 equipment from Taiwan and Japan that are closer to
10 China than they are to the U.S. Perhaps the cost of
11 capital is less. From plenty of stories we've been
12 told, plenty of the plants over there can get
13 subsidies from the government to offset the cost of
14 that capital, to have the capital paid for them or to
15 get loans from the government they don't have to repay
16 to get that capital. Under that scenario, obviously,
17 their cost of capital is a lot lower than ours.

18 MR. BENEDICK: Okay. Thank you.

19 The last question is for Mr. Kincaid. If
20 you could just briefly describe a little bit the
21 hospitality market. We've talked mostly about the
22 residential market for wooden bedroom furniture, but
23 what differentiates those two in terms of how you sell
24 to the residential market, i.e., to retailers, versus
25 how you would sell to the hospitality market, hotels,

1 motels, and what share of consumption in the U.S.
2 would be accounted for by the hospitality sector?

3 MR. KINCAID: Some of that will have to be
4 answered by my colleague, Mr. Sowinski, with
5 the percentages, if we do know that, but there's two
6 different products, generally. It's a different
7 market, the products are different. In the
8 hospitality, you're basically looking at a headboard,
9 a credenza, a night stand and an armoire that would
10 hold a television of the clothing. That is marketed
11 to that industry.

12 We would go out and call on the major
13 hotels. We do that with a product line that is a
14 developed product line which we inventory and it's
15 part of a regular catalog. That's one part of the
16 business. The other part is a custom job where we
17 would actually go in and have different designers and
18 specifiers design products for individual properties.
19 So there's kind of two different segments within that
20 one category.

21 MR. BENEDICK: Given those two different
22 segments, though, do you market or sell it differently
23 in that segment as opposed to retailers? For
24 instance, are there contracts versus spot sales, are
25 there bid prices? Are there any of those differences

1 between the hospitality and retailer sectors?

2 MR. KINCAID: I'll let Mr. Sowinski answer
3 that.

4 MR. SOWINSKI: At American Martinsville,
5 when we sell, we distribute through purchasing groups.
6 We deal directly with hotel chains such as a Marriott.
7 In regards to the size of hospitality, it's probably
8 in the 5 to 10 percent range of the total market we're
9 talking about here. It's been a depressed market
10 relative to what's gone on in terms of growth in the
11 hospitality industry over the last couple of years.
12 It's been very much in a downward trend, more of a
13 retrenching and waiting for expansion to happen with
14 an economic upturn.

15 MR. BENEDICK: Okay. That's important. So
16 it has somewhat different demand characteristics than
17 the retailer end of the market.

18 MR. SOWINSKI: Correct.

19 MR. BENEDICK: Does that mean, then, it's
20 more sensitive to overall or aggregate economic
21 activity in the U.S., real GDP growth, for instance,
22 than the retailer sector?

23 MR. SOWINSKI: We see it being mostly
24 affected by, obviously, travel. We see it being
25 affected by RevPAR, which is revenue growth per room,

1 and other indicators which we look at relative to
2 growth and it's been very stable of late and we
3 haven't seen the growth over all.

4 MR. BENEDICK: So there's some like 9/11
5 effects related to that?

6 MR. SOWINSKI: Clearly, that would be an
7 effect.

8 MR. BENEDICK: Okay. Thank you very much.
9 No further questions.

10 MR. CARPENTER: Good.

11 Thank you, gentlemen, for your testimony
12 today and for your informed responses to our
13 questions. We appreciate your coming here.

14 We'll take a recess until about 12:45 and
15 then ask the respondents to come forward at that time.

16 Thank you.

17 (A recess was taken from 12:30 p.m. to
18 12:49 p.m.)

19 MR. CARPENTER: Mr. Greenwald, you can begin
20 whenever you're ready.

21 MR. GREENWALD: It's like playing to an
22 empty Senate hearing.

23 Let me begin now and trust that your
24 colleagues will come in before I get too far.

25 MR. CARPENTER: They'll be here shortly.

1 MR. GREENWALD: Okay.

2 MR. CARPENTER: We could hold off for a few
3 minutes, if you'd prefer.

4 MR. GREENWALD: We'll start now.

5 For the record, my name is John Greenwald
6 with the law firm of Wilmer, Cutler & Pickering. I am
7 here on behalf of a group of Chinese manufacturers
8 that are respondents in this case. You also have at
9 this table representatives of U.S. producers,
10 representatives of retailers, and representatives of
11 importers. I will let them each introduce themselves.

12 What I would like to do is try and take ten
13 I hope quick minutes to put this case in focus. It's
14 perfectly clear that imports from China have risen and
15 have risen by the amounts in the presentation on
16 behalf of petitioners. But the fact that they've
17 risen doesn't really get to the key questions here.
18 The questions are, first, what is driving the rise in
19 imports, are the imports from China harming the U.S.
20 industry or are U.S. producers profiting from them,
21 will trade restraints on imports from China do
22 anything except shift sourcing to even lower priced
23 imports from non-subject countries, Vietnam, for
24 example, and then, finally, to what extent are
25 non-price factors like quality an issue that the

1 domestic industry has to deal with that has nothing
2 whatever to do with the imports under investigation?

3 Let me begin with a brief discussion of the
4 economics and I think it's in that context that you
5 have to look at all the testimony that we will offer
6 today.

7 First is the economics of the market. It is
8 true that demand depends heavily on the level of
9 discretionary household spending. In a weak economy,
10 demand falls and if you are going to pry dollars from
11 consumers on bedroom furniture, you have to be able to
12 offer something that those consumers find attractive
13 as compared to other products on which they spend.
14 That could range from anything from cars to stereo
15 equipment.

16 There is significant consumer resistance to
17 price increases. You heard a lot of testimony this
18 morning about price points and people not in this
19 market or that market. That's right. The flexibility
20 of a manufacturer to raise prices is very limited. If
21 the price isn't right, household spending goes
22 elsewhere.

23 Now, to the extent that imports from China
24 or anywhere else offer good value for money, and it's
25 a key concept, they attract consumers that would

1 otherwise spend elsewhere. That is, they create
2 demand. The notion that there is a one-for-one
3 tradeoff between imports and domestic production is
4 just economic nonsense.

5 Now, let me turn to the economics of
6 production.

7 Don't go to the next slide yet, because
8 I want a predicate here.

9 There was what I took to be an embarrassing
10 silence when the question was asked about the
11 economics and particularly the labor. I understand
12 why petitioners don't want to say what is obvious to
13 everybody in this room and that is there is an
14 enormous labor disadvantage for the U.S. industry
15 relative to the Chinese industry. In lots of cases,
16 cases on chemicals, even cases on textiles where you
17 have one worker for 20 looms and automatic spinning
18 machines. That doesn't much matter. But in a case on
19 furniture, labor costs are absolutely critical to the
20 economics of production. And all the talk you heard
21 about relative efficiencies and modernizations and
22 productivity gains is relative.

23 It is, relatively speaking, a very, very
24 labor intensive industry and there is no escaping
25 that. When Mr. Dorn spoke about modern factories in

1 China, he was right. He is right. There are very
2 modern factories in China and I'm going to show you
3 now a series of pictures regarding the production
4 process in those very modern factories. And so when
5 you look at them, bear in mind these are factories
6 using state-of-the-art equipment.

7 Can we go through the slides now, Kristen?

8 In the first slide, you see a machining
9 department and there are lots of people, but go to the
10 next slide now. Now you see a carving department.
11 That is hand carved and there is a demand for hand
12 carved wood. You have to multiply that scene by ten
13 times to get a feel for what a carving room is really
14 like in a wood furniture plant. Most U.S. producers
15 do not have automatic computer-controlled carving
16 equipment. One may, two may, but most do not. And
17 for carved pieces, there is a very clear and
18 significant labor advantage that the Chinese have in
19 modern plants.

20 Next slide, please.

21 This is an inlay department. I didn't hear
22 testimony this morning about the mechanization of
23 inlay departments, but you can see there what is
24 involved in making veneer inlays. And, again, it is
25 enormously labor intensive and it has not been

1 mechanized.

2 Now, let me show you two products. I hope
3 you can see them. These are carved inlaid pieces. It
4 is prohibitive for any U.S. manufacturer to make these
5 types of products at the price points that they can
6 sell to the broad center or even upper center of the
7 market. That is simply true. And they themselves
8 import pieces like this from overseas.

9 The dialogue that you had on --

10 Would you keep going? I'm sorry. Let's go
11 to the assembly line. Assembly, the next one.
12 Assembly, then finish. Finishing involves people
13 standing almost shoulder to shoulder trying to get the
14 glaze right, trying to get the sheen right. You do
15 not mechanize this if you are going to make a good
16 quality product.

17 Now, because of the labor cost element,
18 there are products that U.S. manufacturers simply
19 cannot make at a price that most consumers can afford.
20 Wood furniture production in China took off when the
21 Bassetts of the world or the Stanleys of the world or
22 others recognized that there are products that can be
23 made in China economically that simply can't be made
24 in the U.S. economically.

25 Next slide, please.

1 I used an example, it is illustrative, but
2 the arithmetic works no matter what you do. I just
3 assumed 12 man hours to produce a large fairly ornate
4 armoire. And that may be high, it may be low, it may
5 be right, but the U.S. cost of labor is about \$14 an
6 hour and the China cost of labor is actually lower
7 than 50 cents an hour. The cost differential for that
8 armoire comes out when you just do the numbers at
9 \$162. That is a staggering difference.

10 Now, the question that was asked was, well,
11 why is that irrelevant? This isn't a safeguards case.

12 It is relevant because the issue is not U.S.
13 versus China production. The real issue is U.S.
14 versus production from third countries where labor
15 rates are comparable. And anybody that tells you that
16 third country production doesn't matter is either
17 foolish or lying.

18 One of the surprises in today's testimony
19 was how far petitioners kept away from this third
20 country issue. If you look at the numbers, you will
21 see that the increase in production from Vietnam over
22 the period of investigation is far greater than the
23 increase in production from China. The rate of growth
24 is staggering and we'll get to that a little later.

25 Now, let me talk about imports in the U.S.

1 industry. The U.S. industry has greatly profited from
2 importing bedroom furniture from China and elsewhere
3 and what we are talking about here is injury by reason
4 of subject imports to an industry. All the largest
5 U.S. manufacturers import wood bedroom furniture from
6 China that they cannot produce economically in the
7 United States. That is a fact which should not be in
8 dispute. Some major U.S. producers have been
9 forthright about it.

10 To my right is Lynn Chipperfield from
11 Furniture Brands International and he will tell you
12 about the economics of production in the U.S. and
13 overseas and how a blended strategy actually helps
14 U.S. producers.

15 Let me quote now from an annual report from
16 a company, it's actually a Canadian company, but this
17 company was listed as part of the petitioning
18 coalition at one point, Shermag.

19 Shermag's annual report says, "Sourcing
20 relationships in the Orient were secured and
21 strengthened, allowing for the introduction of new
22 items featuring more intricate designs. These
23 traditional designs contrast the clean, casual style
24 that characterizes Shermag's domestic collection."

25 That's what we're saying and that in fact is

1 what forthright North American producers, U.S.
2 producers, agree is true.

3 Others have been less than forthright. I'm
4 going to show you some slides of procurement by
5 Bassett in China, the next one, Stanley in China.

6 Now, contrast a petitioning company's claim
7 in the petition with its most recent third quarter
8 statement. This is Hooker: "We are very pleased with
9 our third quarter operating results." According to
10 its press release, Hooker's gains in the wood
11 furniture segment of its business were driven by its
12 line of imports.

13 Next slide.

14 Because of the economics of bedroom
15 furniture production and because of the sort of
16 fundamental economics of the market, the imposition of
17 dumping duties on imports from China will do one thing
18 and one thing only: it will eliminate some demand
19 because purchases are discretionary and, more
20 importantly, it will lead domestic producers to source
21 from third countries.

22 In fact, petitioners that rely on imports
23 from China to supplement their domestic production
24 are already sourcing from third countries. They are
25 not shifting production back to the United States.

1 With that now I'd like to turn it over to
2 the real experts in the business.

3 MR. SEAMAN: Hello. My name is Jeffrey
4 Seaman. I'm the CEO of Rooms To Go. Rooms To Go is
5 the largest U.S. furniture retailer. We cater mostly
6 to moderately priced furniture, moderately priced
7 customers. Our target range, the broad middle. I'm
8 testifying on behalf of myself and other members of
9 the retail steering group who oppose the petition:
10 Haverty's Furniture, Rhodes, Crate and Barrel, Bombay,
11 J.C. Penney and there are a few others.

12 Personally, I've been in the business 20
13 years and I came into the business as a case goods
14 buyer in my father's business and to this day I still
15 oversee a lot of the bedroom purchases at Rooms To Go.
16 I'm very familiar with the product.

17 Several years ago, way before 2000, several
18 U.S. manufacturers went to China to make bedrooms.
19 The bedrooms didn't just happen to come from China in
20 the mid '90s, the U.S. manufacturers went to China to
21 bring bedrooms over and they had a very good reason
22 for doing it and that was -- and it was not to hurt
23 their own production, I'm sure, but it was to
24 supplement their product line because they had ideas,
25 they had designs, they were the professionals in our

1 industry, and they knew after traveling to China and
2 seeing the infrastructure there that they could make
3 certain bedrooms in China, bring it here, mark it up
4 30 to 40 percent to a retailer and still sell it for
5 less than they could have made it for.

6 They could sell it for a price that would
7 allow some of these new sort of what I would call
8 highly carved, highly inlaid, tremendously labor
9 intensive shaped bedrooms, allow those bedrooms to now
10 sell at a priced that's affordable to most people
11 where previously they couldn't make it.

12 And so they went over there and in order to
13 get the product right, they taught the Chinese
14 manufacturers how to make bedrooms.

15 One of our suppliers, Lacquer Craft, who
16 I've seen somewhere in the petitions, Lacquer Craft's
17 owner went to Vaughan Bassett probably in the late
18 '90s, I don't know the exact year, '97, '98, he was
19 invited there to videotape Vaughan Basset making the
20 bedrooms and we have that videotape, but he was
21 invited there for a reason and the reason was Vaughan
22 Bassett wanted to bring in bedrooms from Lacquer Craft
23 and they subsequently bought bedrooms from Lacquer
24 Craft and they wanted them to be made right because
25 they then had to re-sell it to their customers.

1 And this is just one small example, but the
2 U.S. manufacturers went over there and taught the
3 Chinese how to make bedrooms. They just didn't figure
4 it out by themselves. And what they did was they
5 paved the way for retailers, subsequent manufacturers
6 and importers to go there.

7 Rooms To Go was one of the earlier ones. A
8 lot of our retail steering group came in a few years
9 later, but basically we all had the same reaction and
10 that is this: if the U.S. manufacturers are going to
11 design and make bedrooms in China, bring them over,
12 mark them up 30 to 40 percent, why don't we go just do
13 it ourselves and pass it on to our customers?

14 Any retailer sort of worth his salt who has
15 the ability, if they can save money for their
16 customers by avoiding the middleman, they will. And
17 so what the retailers did was the U.S. manufacturers
18 paved the way, the retailers and a lot of importers
19 quickly followed and instead of paying the middleman
20 markup to the U.S. manufacturers, we just did it
21 ourselves.

22 And, really, there are three major reasons
23 that the retailers import bedrooms from China. The
24 first one, which is the most important one to Rooms To
25 Go, is what I would call in retail the wow factor,

1 that we are now enabled to make bedrooms that are so
2 exciting to the customers, have so much more
3 workmanship, have so much more -- just stuff going on,
4 carvings, inlays, excitement, and then bring those
5 over and we're able to sell them at prices that can be
6 affordable to the average American. Where previously
7 bedrooms of several thousand dollars, if they were
8 made at all in the U.S., now they're affordable for a
9 few thousand dollars at most retailers. So Rooms To
10 Go used China to go over and make exciting product.

11 One of the things that I heard testified
12 this morning which was incorrect, at least it's
13 incorrect in our experience and most of the retailers
14 that I've spoken to on our steering committee, is that
15 the Chinese bedrooms did not knock the retail prices
16 down. They did the opposite. The Chinese bedrooms in
17 effect raised the retail prices.

18 Firstly, just factually, at Rooms To Go,
19 I just asked them to run the numbers. In October of
20 '00, our average ticket on a retail bedroom was \$1540.
21 In October '03, our average retail ticket on a bedroom
22 was \$1780. So there was a lift. At the same time,
23 the amount of bedroom furniture that we imported from
24 China rose from approximately 20 percent to about
25 55 percent. So in our case, bringing goods in from

1 China allowed us to lift our retail prices.

2 Another is quality. You know, I heard some
3 of the retailers here testify that the quality in
4 China has come up to the American standards of
5 quality. That is not true in our case. In our case
6 at Rooms To Go, the quality that we're getting from
7 China far exceeds the quality we're getting from the
8 American factories at the same prices that we're
9 selling goods at. And my experience is even more
10 loudly heard by some of the other retailers on our
11 committee. At the end of my testimony, I'm going to
12 turn it over to Jim McAlister from J.C. Penney who has
13 a very, very sophisticated order process and he can
14 describe the quality issues he had.

15 So quality was a major issue, too. But,
16 thirdly, there's an exclusivity factor. In the U.S.,
17 as retailers go to shop the market, the high point
18 furniture market, and the manufacturers then display
19 their goods that hopefully the retailers buy, what
20 they do is they come up with some new bedroom suites
21 and you could choose from the suites that they come up
22 with.

23 It's almost unheard of that they'll
24 manufacture exclusively for a retailer. They
25 manufacture their product, the retailer gets to choose

1 from the products that are available.

2 In China, that's not the case. In China,
3 the retailers have exclusivity. We can go over either
4 with an importer or with a U.S. manufacturer and work
5 together with U.S. designers, go over and have
6 something made that's particularly for us and it helps
7 us differentiate ourselves from other retailers in the
8 marketplace.

9 We do this very successfully with Stanley
10 Furniture, who is one of the petitioners. Stanley is
11 just a top flight manufacturer and they're a top
12 flight designer and Stanley knows that they cannot
13 manufacture bedrooms of the designs that we need to
14 hit our target customers, they would just be too
15 expensive. So what Stanley does is Stanley designs
16 bedrooms that we make in China.

17 I'm going to hand a packet out at the end of
18 the testimony showing a picture of that.

19 So Stanley designs it, picks the finish,
20 draws the blueprints, does all the engineering, sends
21 it to China. We pay Stanley a royalty for doing this
22 and then we bring the goods over.

23 So it does two things: it gives us that
24 tremendous value and wow factor that we can bring in
25 product that helps us lift our average ticket, but it

1 also gives us exclusivity. And one more thing about
2 that wow factor. It not only helps us raise our
3 average ticket, Rooms To Go's case being a moderately
4 priced retailer, by trading our existing customers up,
5 it brings a lot of new customers into our store and so
6 we have noticed customers with a lot higher incomes
7 than before buying furniture from Rooms To Go.

8 You know, bedrooms are made out of wood and
9 they last a long time and some people need bedrooms.
10 You know, if you buy a new house and you don't have a
11 bedroom or you have an extra bedroom you just need it,
12 but in a lot of cases it's discretionary and so what
13 retailers need to do is we need to create that kind of
14 excitement on the part of the consumer in order for
15 them to get to buy something, whether it's a bedroom
16 or anything, a living room. But in the case of the
17 bedrooms, with imports, in a lot of cases, it allows
18 us to design and manufacture products that we could
19 never have done before in the U.S. at prices that
20 would be commercially acceptable and we put it in our
21 stores and it helps us make a lot of new sales.

22 And some of those sales replace other
23 bedroom sales, but not all of them. Not all of them.
24 And so a customer has a lot of choices today. There's
25 unbelievable choice in technology. We have a span of

1 ages, but a giant amount of customers are sort of the
2 21 to 30 newlyweds who need new furniture, who are
3 very tech savvy, and furniture retailers in general
4 are competing for every penny.

5 U.S. manufacturers were comfortable with
6 China as long as they were the middlemen. When they
7 lost control, they're not happy.

8 The other major issue here that's not being
9 said is that anything that we could make in China we
10 can make in several other countries. When we saw the
11 questionnaire that was sent out, there were questions
12 on two bedrooms: a Louis Philippe bedroom and a
13 mission style bedroom. And they're sort of like the
14 white shirt bedrooms, they're a basic bedroom, almost
15 every furniture store has the style. And it was
16 coincidental that we didn't buy either the Louis
17 Philippe or the mission style from China, that we
18 found the best values elsewhere.

19 In the case of the Louis Philippe bedroom,
20 we found the best values in Malaysia. In the case of
21 the mission style bedrooms, we found the best values
22 in Vietnam. And I brought the product here just to
23 show you, sometimes it's easier to show furniture than
24 to talk about it.

25 Also at the same time, we have a sister

1 company that we bought part of a year ago and they're
2 buying the same product from China and I brought the
3 Chinese versions here. If you have questions about it
4 after, I can answer questions. They're all about the
5 same price.

6 Rooms To Go is an American retailer. We
7 have 6000 Americans who work for us. We're the
8 biggest retailer. When we go to buy product, we
9 always look at American product first. About
10 50 percent of the product on the floor is made in the
11 United States. But at the end of the day, it's
12 customers that dictate what we buy and so it's our job
13 and if we want to succeed and survive, we've got to
14 find the best values of each style everywhere.

15 In the case of bedroom furniture, some of
16 the best values are in China, but some are in several
17 other countries. If tomorrow we weren't allowed to
18 buy an bedrooms in China, there's a lot of furniture
19 coming from China, you'd have a lot of shortages,
20 you'd have some sort of retail chaos, you'd probably
21 have a loss of retail jobs in the short run, but in
22 the medium to long run, all those bedrooms will be
23 replaced by either Indonesia, Malaysia, they'd be
24 replaced by Vietnam, Brazil. They'd be replaced by
25 Thailand. But the product that we're getting out of

1 China will not be replaced in the United States, it
2 won't be replaced at retailers and it won't be
3 replaced at the U.S. manufacturers and we all know it
4 and they're over there now and wherever we go we run
5 into them and they know that. And so they're doing
6 that to survive, too.

7 Thank you very much. I'm going to hand out
8 some pictures at the end of our testimony just to give
9 examples of bedrooms from other countries.

10 MR. MCALISTER: Good afternoon. My name is
11 Jim McAlister and I'm the Operations Manager, Quality
12 and Sourcing, J.C. Penney.

13 J.C. Penney has an extensive quality control
14 program for all the production that it sells and
15 that's including the furniture department.

16 Through the 1990s, we sourced the vast
17 majority of our wooden bedroom furniture from domestic
18 manufacturers. In 1999, we began to receive a large
19 number of complaints from customers regarding defects
20 in furniture that was being delivered to their homes.
21 In response to those complaints, we audited seven
22 United States producers in three of our distribution
23 centers. That was for a 30-day period that we did
24 that, we brought in our own inspectors within our
25 three distribution centers to do audits.

1 Our quality control inspectors found
2 numerous quality problems including manufacturing
3 defects and also packaging-related defects that
4 damaged the furniture.

5 For the seven U.S. producers as a whole, our
6 auditors found a failure rate of over 50 percent
7 within that 30-day period. Needless to say, you can
8 imagine how shocked we were that we had a 50 percent
9 defect rate sitting within our three distribution
10 centers over that 30-day period.

11 It made us have to step back and take a look
12 at ourselves and look at the way we were auditing the
13 manufacturers at their FOB sites. What we were doing
14 was random statistical audits. Obviously, with that
15 50 percent defect rate that we found, we knew that we
16 had to do something different.

17 What we did is we came back and we decided
18 that we were going to take our inspection staff for
19 just furniture from six individuals up to 20. We
20 brought those people in from throughout the United
21 States, we changed some of the people that we had
22 within North Carolina, trained them to be able to do
23 inspections, and we began to examine each and every
24 lot before it could leave the factory. So instead of
25 doing random statistical audits, we began to look at

1 every lot before it could ship.

2 Between 2001 and 2003, we conducted 934
3 audits of the U.S. producers of bedroom furniture.
4 The defect rate for the U.S. bedroom furniture was
5 22.6 within that period. During that same 2001 to
6 2003 period, J.C. Penney also conducted 690 audits of
7 imported bedroom furniture, including China and other
8 countries such as Thailand. The defect rate for the
9 imported bedroom furniture was 1.9 percent.

10 As a result of our findings of high defect
11 rates for the domestically produced bedroom furniture,
12 we offered numerous suggestions to the domestic
13 producers on how to improve their quality. We also
14 asked them to provide us with a corrective action plan
15 that we could work together with them on. To this
16 day, we have not received a corrective action plan
17 from any of the domestic producers.

18 Because of these continued unacceptable
19 quality problems with the domestic products and the
20 domestic producers' failure to correct these quality
21 problems, J.C. Penney has had no choice but to
22 decrease purchases of domestically produced wooden
23 bedroom furniture and to increase the purchases of
24 imported bedroom furniture from China as well as other
25 countries.

1 Thank you.

2 MR. KEMP: Good afternoon. I am Bill Kemp
3 and I'm here to speak on behalf of the Committee for
4 Free Trade in Furniture. I am President of Kemp
5 Enterprises and I'm an importer for the last 14 years.
6 The 19 years before that was as an American
7 manufacturer.

8 In my remarks today, I would like to try to
9 address three issues. The first is what I see as a
10 disingenuous stand by the petitioners because they are
11 doing the same thing I am: importing furniture from
12 other countries. Second, I would like to address why
13 the U.S. manufacturers retailers and consumers rely on
14 the import of wooden furniture from China. And,
15 finally, I would like to shed light on what is likely
16 to happen, in my opinion, if the petitioners prevail
17 and duties are imposed.

18 First is a reaction to the petition. I am
19 taken aback by the hypocrisy of what I see in the
20 complaint when they're importing themselves. I'd like
21 to show an ad which is up here which shows two people
22 in a gas mask. While I'm disturbed by the ad and it
23 really bothered me with a lot of the people I work
24 with in plants around the world, the point I would
25 like to make about it is in the left-hand corner,

1 there's a sign that says "Vaughan Bassett Made in the
2 U.S.A."

3 The next picture over here will show some
4 Vaughan Bassett boxes made in China, which emphasizes
5 the point that the impression that's trying to be
6 given is that all this manufacturing is happening in
7 the U.S. with the petitioners when a lot of that
8 product is actually coming in from offshore. They're
9 doing really the same thing that I'm doing.

10 And I'd like to re-emphasize the point that
11 a lot of that is being sold under brand names, it's
12 just not -- the China product is not showing up in the
13 distribution channels with brand names.

14 The other thing that I've heard this morning
15 and I'd like to kind of emphasize the point is the top
16 designers in the world and in the U.S. are going to
17 help design product in these countries. They're
18 involved right from the get go and the process is no
19 different than it was when I used to do it as a
20 manufacturer or I would submit as most of the
21 petitioners do. We take a design and we see an
22 exciting thought process or an idea and then we get a
23 designer to work on it and try to refine it into a
24 different look and a different feel and improve on it,
25 is what we really try to do.

1 Why do manufacturers, retailers and
2 customers rely on imports from China? I think it's
3 clearly that the most important and most prevalent
4 reason is labor costs. There's a growing demand by
5 U.S. consumers for the type of furniture made in China
6 which was not available to them before because we were
7 not capable of producing at price points they could
8 afford, the looks that we can do with the low labor
9 costs out of China.

10 From my experience as a manufacturer, of the
11 final cost of a product that we used to sell, between
12 42 and 45 percent of that cost was direct and indirect
13 labor. So there's a tremendous area of the final cost
14 of a product coming from whoever sells that product
15 coming from labor.

16 My experience in my importing with
17 manufacturers from around the world is that that
18 number is closer to 12 to 15 percent.

19 Combine that differential with the fact that
20 a lot of the product coming out of China is the very
21 most labor intensive product that there is, with lots
22 of fancy face veneer work, with a lot of carving, it
23 even accelerates more that differential in labor.

24 The other point I would like to make, and
25 I've been in probably 50 plants in China, a lot of

1 those plants are the most modern in the world because
2 they've been built in the last two to four years, so
3 they're state-of-the art, they've been thought
4 through, the layout is not something that we've
5 started with one plant and we've added on and we've
6 added on and we've added on, it's been built right
7 from the start to support a manufacturing operation
8 and a flow.

9 An example I think that sort of drives the
10 point home, where in the U.S. we might use one person
11 to buff a piece of furniture, in China because of the
12 labor costs, we'll use three. In the U.S. where we
13 might use five people to hand sand on the finishing
14 line, in China we'll use 15. On the glaze line where
15 we would normally have 10 people, in China we'll have
16 30. This increases the detail, the fit, the finish,
17 the seal of the final product because a lot of that is
18 done artistically and it really takes hand effort to
19 make those things happen.

20 This thing of the petitioners, I'd like to
21 drive home the point about importing and so I'd like
22 to read from a couple of 10-Q statements. The first
23 one is from Stanley Furniture Company, the 10-Q of one
24 of the petitioners, and I quote: "The company
25 continues to implement a blended strategy of combining

1 its domestic manufacturing capabilities with an
2 expanding offshore sourcing program and realigned
3 manufacturing capacity. Integration of selected
4 imported component parts and finished items in its
5 product line will lower costs, provide design
6 flexibility, offer a better value to its customer.
7 The company will continue to evaluate its
8 manufacturing capacity needs, considering increased
9 offshore sourcing, current and anticipated demand for
10 its product, overall market conditions and other
11 factors deemed relevant by management."

12 In the Bassett 10-Q statement, it states
13 that it embraces changes in the industry, and I quote,
14 "by reducing its domestic production of product that
15 can be more efficiently sourced overseas."

16 It goes on to say, "The company believes
17 that overall operating margins will be positively
18 impacted through its effort to re-engineer
19 manufacturing processes and source more product
20 overseas."

21 I hope the commission will not ignore the
22 reliance of the domestic industry and the petitioners
23 on imports from China and other countries.

24 Finally, as my third point, I'd like to try
25 to address what will happen if duties are imposed.

1 I clearly believe that the product will not come back
2 to the United States. Imports are available from a
3 wide range of companies and countries. I personally
4 import bedroom furniture from Chile, Brazil, Indonesia
5 and Mexico and also China and I believe that these
6 countries would be ready, willing and desire to step
7 up and produce more product because they have a
8 competitive advantage, which is labor. Malaysia,
9 Vietnam, Philippines and other South American
10 countries are also waiting in the wings if there was a
11 capacity need.

12 I think that also what would happen is much
13 like what happened in the flow of the manufacturing
14 facilities from Taiwan to China, which has occurred
15 over the last ten years. If duty was imposed, I think
16 those same manufacturers would just move their
17 facilities, and some of them have put some facilities
18 in Vietnam, would just move those facilities and start
19 producing in a country that wouldn't be affected by
20 this duty.

21 Finally, I think it just doesn't make sense
22 that the production would come back to the United
23 States because in China you've got a 40 cent an hour
24 labor rate or less, in Vietnam it's 15 cents an hour.
25 The plant costs are much cheaper in China and Vietnam.

1 It's \$4 a foot for a plant in China, it's about \$3 a
2 square foot to put up a plant in Vietnam, it's about
3 \$60 to \$80 a foot to put up a plant in the U.S.

4 Based on my knowledge of manufacturing, it
5 is much more likely that that production will go to
6 other countries that I have mentioned before and
7 I really believe that because the labor factor is even
8 lower, like the 15 cent an hour rate in Vietnam, that
9 the problem might even be better as the infrastructure
10 moves and the technical people move to support the
11 plants as they would move to the other countries.

12 This highlights the thoughts that I think
13 the commission should examine and I'd like to thank
14 you for your time and attention and I hope I've been
15 able to shed some light on some dynamics in the
16 industry as I see them.

17 Thank you.

18 MR. CHIPPERFIELD: Good afternoon. My name
19 is Lynn Chipperfield. I'm Senior Vice President and
20 Chief Administrative Officer of Furniture Brands
21 International. I've been with the company for over 20
22 years, I've been involved in the furniture industry
23 for over 20 years.

24 Furniture Brands International is the
25 largest residential furniture manufacturer in the

1 United States. We sell our products under several
2 well known brand names: Broyhill, Lane, Thomasville,
3 Drexel Heritage, Henredon, Maitland-Smith, Hickory
4 Chair, Pearson and half a dozen others.

5 We have 40 domestic manufacturing facilities
6 in this country and, at last count, some 20,000
7 employees, mostly in North Carolina, Virginia and
8 Mississippi. Even though it represents less than
9 25 percent of our revenues, we also believe that we
10 are the largest U.S. manufacturer of wooden bedroom
11 furniture. Eighty percent of our wooden bedroom
12 furniture is manufactured in our domestic
13 manufacturing facilities, 14 percent is imported from
14 China and 6 percent is imported from countries other
15 than China.

16 I'm here today because we strongly believe
17 that there has not been and that there is no threat of
18 any material injury to our industry by reason of the
19 allegedly dumped imports of wooden bedroom furniture
20 from China.

21 The domestic furniture industry is highly
22 fragmented and it has been for some time. As I said,
23 we're the largest player in the industry and we
24 control only a 10 percent market share. In fact, the
25 top three only control a 25 percent market share.

1 Compare that to the auto industry or other mature
2 industries.

3 But through a natural evolutionary process,
4 a consolidation in our industry is beginning to take
5 place and that consolidation has been accelerated in
6 recent years basically by two factors. The first is
7 the cyclical downturn that we experienced in our
8 overall economy. The second is globalization, the
9 fact that we are now operating in the international
10 marketplace, not just with China, but I think
11 Indonesia, the Philippines, Malaysia, Vietnam, South
12 Africa, countries in South America and Europe and many
13 others.

14 These two factors have tested our skills as
15 managers and have put pressure on many companies in
16 our industry, particularly those who have made the
17 decision not to compete globally. The question put by
18 this petition is whether we will rise to this
19 challenge and learn how to compete in the
20 international marketplace or whether we will retreat
21 behind tariff-based walls.

22 Our company, Furniture Brands, is pursuing a
23 blended program, mixing domestic made products with
24 imports. This is something any company in our
25 industry can do if it is willing to make the

1 investment in terms of management time, capital
2 resources, and an offshore sourcing structure.

3 In light of all the costs and complications
4 associated with imported products, we have found that
5 many lines of furniture, not just bedroom furniture,
6 but other kinds of wood furniture and upholstery, can
7 be made more efficiently in the United States and
8 that's what we do. We produce these lines in our
9 domestic facilities which include 17 domestic wood
10 manufacturing facilities.

11 We have one collection, for example, that
12 generates over \$100 million in revenues for us on an
13 annual basis and all of it, including the wooden
14 bedroom furniture, is manufactured in our North
15 Carolina based facilities. This is because the
16 variety of colors and finishes in which that product
17 line is offered make it impractical or impossible to
18 produce it effectively or efficiently offshore and our
19 cost structure on that product line is competitive
20 with any similar products that we could bring in from
21 offshore.

22 On the other hand, there are certain
23 products that we elect to bring in from offshore
24 because they simply can't be manufactured efficiently
25 or effectively in our own facilities. Generally,

1 these products involve intricate hand carvings or
2 other unique design elements and we just can't do that
3 at our domestic labor rates at a cost that will still
4 be attractive to the furniture consumer.

5 Bear in mind that these are our products,
6 these are our designs. We send renderings, we send
7 engineering drawings over to the Far East. We
8 approach various manufacturers, we ask them if they
9 can do it. We either set a price that we're willing
10 to pay or we take a bid on them on what they're
11 willing to manufacture it for. Sometimes we
12 negotiate. Sometimes we find that they can't
13 manufacture it for the price we want and we keep the
14 product here domestically. Decisions on what's made
15 domestically and what's brought in from offshore are
16 made on an item-by-item basis.

17 We like our domestic manufacturing base
18 because it has enabled us to provide prompt delivery
19 on products manufactured here, to service our
20 retailers more effectively, and to keep our
21 inventories in check.

22 I heard this morning that we have been
23 quoted as saying that we have given up on U.S.
24 manufacturing and that our future home is in China.
25 That is a misstatement. We never said that and,

1 frankly, the fact that so many of our employees are
2 sensitive about this issue makes it a reckless
3 misstatement. We have not given up on U.S.
4 manufacturing, although we do like our import
5 programs, too, not just from China, but from other
6 countries as well, because they have enabled us to
7 expand our product line and to offer a value to
8 consumers that we would not be able to offer on
9 products manufactured domestically.

10 The two programs, domestic manufacturing and
11 imports, complement each other and both contribute to
12 profitability. In fact, in many cases, the profits we
13 make from our import programs help carry our domestic
14 manufacturing operations, creating greater
15 possibilities for security of domestic jobs.

16 Our success does not come from purchasing
17 products that are being dumped on the domestic
18 markets. It comes instead from our having dealt with
19 issues of U.S. consumer demand and U.S. production
20 costs by making the investments necessary to address
21 both in an effective and efficient manner. As I said,
22 this is not unique to our company. Other companies
23 can do this as well.

24 The only meaningful effect of tariffs on
25 Chinese products that we can foresee will be an

1 increase in the price of furniture to the U.S.
2 consumer. As a manufacturer, in the near term, we
3 will add the amount of the tariffs to the price we
4 charge our retailers and the retailers will likely add
5 that additional cost to the price they charge the
6 consumer. In an industry just now beginning to emerge
7 from one of the most sustained downturns in its
8 history, we don't need the threat of sharp price
9 increases to dampen demand. A successful effort to
10 impose these tariffs may well have that effect and, if
11 so, may cost more jobs than it was intended to save.

12 In the longer term, if tariffs are imposed,
13 we will shift our China-based sourcing programs to
14 other countries where we already do business, such as
15 Indonesia, the Philippines, Malaysia, Vietnam and
16 others. This is largely because overseas quality
17 control personnel, logistic support structures and
18 capital allocation mechanisms are largely
19 transferrable from one foreign country to another or
20 from one offshore manufacturing facility to another.
21 It's much more difficult to bring it back to the
22 United States.

23 The stated purpose of this petition is job
24 preservation. We as much as anyone else want to
25 preserve U.S. jobs. We value our workforce and we

1 have invested much money and effort to help ensure
2 that we continue to provide high paying, high quality
3 jobs to the American worker. But there are other
4 reasons besides imports why the domestic industry is
5 being forced to change. One of those is technology.
6 You heard a little bit about that this morning.

7 We spend millions of dollars every year to
8 maintain and upgrade our domestic manufacturing
9 plants. Again, we have not given up on domestic
10 manufacturing. Investments in state-of-the-art
11 computer assisted design and manufacturing equipment
12 have reduced significantly the labor content of our
13 production while at the same time increasing the
14 productivity of our workforce.

15 Increased productivity is what keeps us
16 competitive, not just with offshore products, but with
17 our domestic competition as well, but increased
18 productivity by definition means that the number of
19 jobs per unit of production declines. When we receive
20 a request for a capital expenditure from one of our
21 operating companies, the return on investment
22 invariably is justified by the number of jobs that
23 this machinery will replace. It has nothing to do
24 with dumped imports.

25 I will tell you with absolute certainty that

1 our domestic furniture industry has experienced
2 significant pressure on revenues and earnings over the
3 last several years. I will also tell you with equal
4 certainty that the alleged dumping of products from
5 China has not been the cause.

6 Our industry showed consistent growth over
7 the 30-year period from 1971 to 2001, with only three
8 short periods of flat or marginally down performance
9 usually during recessions in our overall economy.
10 Together with the rest of the U.S. economy, we enjoyed
11 very robust performance during the strong economic
12 period from the mid '90s to the late '90s. Beginning
13 in the middle of the year 2000, however, the furniture
14 industry entered a cyclical downturn that has been the
15 deepest and most sustained in the memory of most
16 furniture industry veterans.

17 These generally soft business conditions
18 continued for the three-year period from mid 2000 to
19 mid 2003. In recent months, we have begun to see the
20 early signs of recovery.

21 We are all being affected by the same
22 cyclical downturn in our economy, generally
23 attributable to the decline in the stock market,
24 falling consumer confidence, wars and threats of wars
25 in other countries and an overall recessionary

1 environment.

2 In addition, we in the furniture industry
3 have found ourselves competing for the consumer's
4 limited discretionary dollar at a time when the auto
5 companies are heavily promoting their products and at
6 a time when historically low interest rates have
7 attracted many people to the housing market.

8 There is simply a limited amount of
9 discretionary money to go around and, frankly,
10 furniture has lost some of its share.

11 Some manufacturers reacted to this cyclical
12 downturn with ill conceived efforts to maintain sales
13 by eliminating profits. Little wonder the petition
14 recites that at least for some companies operating
15 income and cash flow have all but vanished. But for
16 other companies, the soft business environment
17 presented the challenge to reexamine our cost
18 structure, increase operating efficiencies, invest in
19 technology and lay a foundation for the improved
20 business conditions that would follow the cyclical
21 downturn.

22 The use of imported products to supplement
23 our domestic manufacturing base has proven to be a
24 successful strategy. We have expanded our product
25 offerings and have found a way to offer a greater

1 value to the furniture consumer all generating cash
2 and earnings which have been employed to the benefit,
3 not to the detriment, of our domestic manufacturing
4 base. It worked for us, it can work for others.

5 This antidumping effort is not in the best
6 interests of our employees, the consumer or the
7 industry as a whole. Blaming the Chinese for the
8 inevitable consolidation of our industry or for the
9 recent economic downturn which largely affected all
10 domestic industries is merely a distraction from the
11 real challenge of remaining competitive.

12 The imposition of tariffs will simply
13 increase the price of furniture, put a lid on consumer
14 demand, weaken our domestic manufacturing operations
15 and result in the transfer of Chinese manufacturing
16 operations to other countries.

17 We respectfully suggest that the
18 International Trade Commission enter a finding that
19 there has not been and that there is no threat of
20 material injury to our industry by reason of dumped
21 imports so that we can get on with the business of
22 competing in the international marketplace and with
23 each other.

24 MR. SILVERMAN: The time remaining?

25 MR. DEYMAN: Mr. Silverman, you have six

1 minutes left in your presentation.

2 MR. SILVERMAN: What I would like to do --
3 Mr. Seaman did refer to some pictures showing the
4 variety of products coming in from some of these other
5 countries. We have copies that we would like to
6 submit for the record. I think we have 40 copies
7 here. Could we submit them now, and you could look at
8 them, and if you have any questions? Well, we could
9 use the time. We have six minutes. We'll do it.

10 MR. CARPENTER: Yes. Please do. Also, Mr.
11 Greenwald, if I could ask you, do you have any paper
12 copies of the pictures from the Chinese factories with
13 you?

14 MR. GREENWALD: I brought a limited amount,
15 and what I did was distribute them to the counsel and
16 others on the petitioning side, so if they didn't have
17 a good view of the screen, they could see what I was
18 talking about. But we will submit it formally for the
19 record.

20 MR. CARPENTER: Okay. Do you have one extra
21 set that you can give to the court reporter?

22 MR. GREENWALD: Yes, I do.

23 MR. CARPENTER: Okay. Thank you. Please
24 proceed.

25 MR. SEAMAN: Jeff Seaman again, president of

1 Rooms To Go. I brought pictures of bedrooms from the
2 U.S., from Indonesia, from Vietnam, and from Brazil,
3 just to give a feeling for this whole notion that it's
4 Chinese imports alone. Okay? China represents just
5 one of several countries that can manufacture bedrooms
6 for about the same price.

7 The first two are mission-style bedrooms.
8 We've found, again, that the most competitive mission
9 bedrooms for us was in Vietnam, which is a combination
10 of wood veneers, finishes, size, et cetera. So one
11 and two are just pictures of that.

12 If you look over here, -- I brought the two
13 mission bedrooms -- the one all the way on the right
14 is -- this one is from Vietnam. This is \$205.

15 MR. CARPENTER: Mr. Seaman, could you try to
16 grab a microphone that's close to you?

17 MR. SEAMAN: That one is from Vietnam, and
18 that cost us \$205, first cost. The other mission is
19 from China. It's from another company that we have
20 part ownership in, and that's \$215. So it's about the
21 same.

22 Same thing here, Louis Felipe dressers.
23 They are buying a Louis Felipe dresser in China for
24 \$121. We're buying a bigger one from Malaysia for
25 \$140, but it averages a little less. We get specials

1 from time to time.

2 So the only point is that the two things
3 that were in the questionnaire were interchangeable;
4 we buy neither from China.

5 Number three in the packet is one of the
6 bedrooms that Stanley designed for us to make in
7 China. This bedroom sells at retail for almost twice
8 what the mission bedrooms sell for retail for. The
9 mission bedrooms sell, dresser, mirror, bed, for \$899.
10 This sells dresser, mirror, bed for \$1,599.

11 Stanley is one of the Petitioners that
12 design bedrooms for us to be made in China.

13 But this is just an example of where we go
14 to China for more expensive product, sort of more
15 exciting, wild product.

16 The fourth one is a hand-carved bedroom from
17 Indonesia. At Rooms To Go, we sell this for \$699, the
18 hand-carved bed, the complete bed for \$699. It says
19 "INSP-877." I'm sorry. It's from Vietnam. It was
20 from Indonesia; now it's from Vietnam. The point is,
21 if it were made in China, it would be the same price.
22 They can make this in China, and they can make it in
23 Indonesia, and they can make it in Vietnam.

24 Number five is the Louis Felipe that we're
25 buying out of Malaysia that I just described. Then

1 there is a closeup of the bed. We sell this, dresser,
2 mirror, bed, for \$999.

3 It's interesting, number seven is a hand-
4 carved bed that we're buying from Indonesia, or were
5 buying from Indonesia until last year. This bed, we
6 were selling for \$599. We had a similar bed that we
7 ran earlier from China, which is later on in the
8 pictures -- it's not in my set. We ran this same bed
9 from China, virtually, okay, the year before, same
10 retail.

11 Number nine and number 12 -- sorry to do
12 this -- we just got these this morning -- number nine
13 and number 12 are bedrooms that are being made in
14 Brazil. We're retailing this dresser, mirror, bed for
15 \$899.

16 Number 10 is a bedroom that we had been
17 running from Vaughan Furniture, which is similar,
18 really -- same customer as one of the bedrooms from
19 Brazil. The Vaughan bedroom was \$100 higher. But the
20 point really is, we replaced the production not with
21 goods from China, but we replaced the production with
22 goods from Brazil. We find that the most competitive
23 pine bedrooms come out of Brazil.

24 The last two pictures was more of a quality
25 issue. This was really an egregious example of

1 quality. We were buying picture number 14, which is a
2 famous style -- actually, it was originally a
3 Furniture Brandsstyle, not quite the same. We were
4 buying it from the United States for years from a
5 manufacturer called Florida Furniture, and their
6 defect rate was too high. We said to them about a
7 year and a half ago, Look, you guys have got to cut
8 the defect rate; otherwise, we've got to move this
9 offshore. They said, Look, we can't get it below --
10 they were 27 percent -- we can't get our defect rate
11 below 27 percent. Take it or leave it. We're sorry,
12 Jeff. We want to sell to you, but this is the best we
13 can do. We moved this same bedroom to Markor, a
14 manufacturer in China, and the defect rate is below
15 five.

16 Another quality issue: I didn't know if I
17 had time, but one of the issues that we had at Rooms
18 To Go is because of our size, we move a tremendous
19 amount of product through our warehouse quickly. We
20 deliver in our warehouse in Florida 10,000 pieces of
21 furniture a day, and we handle the product a little
22 differently than a lot of other furniture retailers.
23 We've found that part of the defects were self-
24 inflicted, that in our handling we were crushing
25 corners of dressers and in some cases night tables.

1 So we developed a box with an American box
2 manufacturer that was sort of a box within a box that
3 helped us, you know, solve this problem.

4 We went to all of our vendors and said,
5 Listen, we really need you to use this box. None of
6 the American vendors would use the box. We said to
7 them, Look, you've got to use the box. They said,
8 Look, Jeff, we use one box; we're not using two boxes.
9 I said, I'll pay you for the difference. No. And so
10 all of the overseas vendors, whether it's China or
11 Indonesia, or whoever, they said, Okay, you want
12 another box, you get another box. We don't care. We
13 don't want to be charged back anyway.

14 And so, you know, just that little thing in
15 the box shift helped us reduce our defects by half.
16 That's just one example.

17 If you have more questions about these
18 pictures -- the real point is, is that there's
19 worldwide sourcing possibilities for bedroom. It's
20 not just China. In almost every case, it's
21 interchangeable. The biggest strengths that we find
22 in China are on the more expensive products like the
23 Stanley product in this packet. Thanks.

24 MR. GREENWALD: I suspect that was a very
25 long six minutes, so we'll turn it over to questioning

1 now.

2 MR. CARPENTER: Thank you very much for your
3 testimony. It was very helpful. We'll begin the
4 questions with Mr. Fisher. Mr. Reynolds?

5 MR. REYNOLDS: Thanks very much, and, again,
6 a very informative and helpful presentation,
7 especially from the witnesses. We really appreciate
8 it.

9 Just a couple of more boring issues, I
10 think, the legal issues. Mr. Greenwald and Mr.
11 Silverman, do you, for purposes of this preliminary
12 investigation, agree with Petitioners' definition of
13 the like product?

14 MR. GREENWALD: No. We're going to have to
15 answer that in the post-conference brief. We haven't
16 seen the data yet. Obviously, you were making some
17 very good points about precedent. You don't sleep in
18 armwas, and you don't hang your clothes in your bed.

19 The discussion of precedent struck me as --
20 unpersuasive is actually an understatement, the notion
21 that oil country tubular goods is seriously comparable
22 to furniture doesn't pass sort of the simple ha-ha
23 test. The idea that somehow the semi-finished
24 analysis would sway the legal argument struck me as
25 even worse. All that said, what I want to do, if I

1 can, on the like product is reserve judgment. Give us
2 a little time to think about it and answer in our
3 post-conference brief.

4 MR. CARPENTER: Does that mean, at this
5 point, you're not really sure whether you want it
6 broken up into --

7 MR. GREENWALD: That's right. It requires
8 some thought.

9 MR. CARPENTER: Okay.

10 MR. SILVERMAN: There are two possibilities.
11 You can either break it down or you can broaden the
12 like product. Clearly, the domestic industry has
13 cooked it a bit the way they wanted it, and in the
14 preliminary determination they have time on their
15 side. But you raised enough issues about whether it
16 should be broken up into sub-like products, but there
17 is also the issue of whether it can be expanded, and
18 we appreciate the opportunity, and we'll do our best
19 with an extension of the brief deadline to answer it.

20 MR. REYNOLDS: It is Thanksgiving weekend
21 next weekend.

22 What I would do, if I were you, in terms of
23 looking at those issues, is address things like
24 production line, whether the facts are consistent with
25 what they say in terms of there being differentials

1 between who produces wooden bedroom furniture or the
2 production facilities they produce, whether there is
3 separation between wooden furniture facilities in
4 companies and other types of --

5 MR. GREENWALD: We will. Let me, if I may,
6 answer an issue that was raised, and, again, it was
7 raised disingenuously. There was a lot of talk about
8 sales and suits, and you sell a suit for a suit price.
9 We even looked at some of the pictures that they had
10 on the screen. The truth of the matter is pricing
11 varies within a particular style by size, so that you
12 will have a separate price for a king bed, another
13 price for a queen bed, another price for a big chest,
14 another price for a smaller chest.

15 I understand why they are pressing the way
16 they are pressing, but the more you probe, the more
17 holes in both the legal argument and, frankly, the
18 logic begin to appear, and we're in that process of
19 trying to think through it.

20 MR. REYNOLDS: I guess what I'll do is I'll
21 just ask you on a separate issue. You probably should
22 take a look at the related-parties issue and take a
23 look at whether there are some or all of the producers
24 that you think should be excluded from the industry.
25 It's going to be hard because maybe they will propose

1 things, and you won't really have time to respond.

2 MR. GREENWALD: What I would suggest is you
3 exclude all of the Petitioners who import from the
4 industry.

5 MR. SILVERMAN: I would say, we think that's
6 a germane issue. We're glad you raised it because we
7 were going to do that. But it also is germane to the
8 question of conditions of competition. When people
9 wrap themselves in the flag of jobs at the same time
10 they are going to China to introduce Chinese companies
11 to come to the United States, they led the pack, you
12 might say. They started this.

13 So I think when you examine the concept of
14 conditions of competition, all of the things that they
15 have done should be considered by the Commission, even
16 if it doesn't reach the standard that is necessary for
17 exclusion under the related party. The same
18 information could be used for a related-party
19 determination that would be used for understanding why
20 we are where we are.

21 MR. REYNOLDS: Actually, you've sort of led
22 into a big issue here which was discussed a little bit
23 with Mr. Dorn, which is you've made a big part of your
24 argument center somewhat around the comparative cost
25 advantages, and, you know, in some respects, I think

1 it relates to what you were just saying, which is
2 decisions by the industry and by producers here to
3 shift some of their sourcing overseas, rationalization
4 of sourcing and production.

5 How do we hook that into the ITC's analysis
6 under the statute? You've suggested conditions of
7 competition, but when you're looking at volume, price,
8 and industry, how do we get those sort of concepts
9 into a discussion of significant volumes, price, and
10 impact on the industry?

11 MR. GREENWALD: There are three points. The
12 first one is to what extent does the pricing, if you
13 will, the ability of Chinese to produce product which
14 cannot be made, and I hope they would concede that,
15 that cannot be made and sell at the price points they
16 want to sell, create a demand. You heard Jeff Seaman
17 talk about the wow factor. There is an element of
18 essentially demand creation in the sense that a bed
19 that knocks a consumer's socks off or a bedroom suit
20 that knocks a consumer's socks off will persuade that
21 consumer to buy a bed instead of a car or something
22 else, so that is one factor.

23 Second, that you have to look at is related
24 to what the imports are doing to the domestic
25 manufacturers. If I can go back to the Hooker

1 financial statement, which I read, and then I'll
2 relate it to Mr. Chipperfield's testimony. The truth
3 of the matter is that imports by domestic producers
4 have allowed them to strengthen their manufacturing
5 base, and in that sense, they have helped rather than
6 hurt the industry.

7 When a Bassett elects -- the notion that
8 offshore manufacturing was thrust upon them is simply
9 nonsense. I hope that there is enough institutional
10 cynicism to discount statements like that. When a
11 Bassett decides to have a suit manufactured overseas,
12 it is a question of choice, and that same Bassett
13 company decides that it is more economical, it makes
14 better sense, and it is better for it to outsource
15 some of its production, and that does involve
16 downsizing. But that is a question of choice, and
17 there is a difference between the immediate labor
18 impact and the health of the industry. It does the
19 U.S. industry no good to put its resources in the
20 production of elaborately carved, veneer product that
21 require -- you saw the number of workers up there.

22 So, again, if I can put it in the context of
23 a statute, when you look at injury and what are the
24 imports doing, I would make the argument, and I would
25 refer you to the Furniture Brands International

1 experience, that, in fact, the imports have helped the
2 producers that have gone offshore for part of their
3 product line and strengthened -- the product line
4 remains.

5 The third point that analytically is
6 important is the but-for. You have heard everybody
7 around this table say, unequivocally, that product
8 that you can produce efficiently and economically
9 offshore and you cannot produce efficiently and
10 economically on shore is not coming back on shore.
11 You heard the salesman from Lee say exactly the same
12 thing.

13 So what you're looking at in causation is
14 asking what is the impact of imports from China, and
15 if it's true, as we submit, that the competition
16 really isn't between production in the U.S. and
17 production in China but between production in China
18 and production in any one of a handful of countries,
19 that affects your causation analysis.

20 So on all three points there is direct ITC
21 injury- and causation-related issues that have to be
22 factored in, from my point of view, into your
23 analysis.

24 MR. SILVERMAN: Let me just add that you
25 hear talk this morning about price suppression. I

1 think you should ask members of the Petitioners' group
2 how many hundreds of times they or their
3 representatives visited factories in China and other
4 places in Asia and Brazil and asked for lower prices.
5 One person said he has been there 17 times, but I
6 think if you canvass them, and if the questionnaire
7 ever asked how many times have you gone to China and
8 asked for lower prices, you would get a picture of
9 their, let's say, inconsistency in their argument
10 about price suppression, and they go to third
11 countries and do the same thing.

12 We heard that tape that John had played
13 where a representative of the petitioning group said,
14 Don't worry about the dumping case on China. We'll
15 get it for you from Vietnam and it won't bother you.
16 So those are conditions of competition, and they bear
17 on the causation issue, quantitative effect and the
18 price effect.

19 MR. REYNOLDS: Just a quick question before
20 I fall off on this discussion, which is, who is Mark
21 Katzman? Is he a sales representative for La-Z-Boy or
22 Kincaid?

23 MR. SEAMAN: Mark is a sales rep. for Lee,
24 which is the children's manufacturing division for La-
25 Z-Boy.

1 MR. REYNOLDS: Okay. I got you. Thanks,
2 Mr. Seaman.

3 Back to this issue, the problem -- not the
4 problem -- just an issue, let's call it -- now you
5 know it's a problem -- is that the statute says we're
6 supposed to look at the domestic industry, and you're
7 using a definition of industry that encompasses
8 importing operations and production operations.

9 The statute says, look at domestic
10 production operations, doesn't it? And so we have an
11 issue. How do we, as a statutory matter, if we're
12 told to look at production facilities, which defines
13 the industry, the facilities that produce the domestic
14 like product and the employees that produce that like
15 product here in the United States and their revenues
16 and their profits and their shipments, how do we pull
17 this back into it in a way that's specifically tied to
18 the statute?

19 MR. GREENWALD: The statute has two
20 requirements: First, and I don't mean to get into the
21 theology of injury analysis, but the first question
22 is, is the industry injured, and the second question
23 is, if so, what caused it, and you have here a
24 situation in which Petitioners are arguing, We are
25 injured because we made the choice to shut down

1 domestic plants and go offshore. But that's the
2 essence of their argument: We had to do it.

3 Well, I suppose that at some sort of unreal
4 world way you could say that Petitioners are entitled
5 to relief for deliberate choices they make to shift
6 manufacturing offshore, but that doesn't strike me as
7 a credible causation argument to present. It is a
8 question of choice, and they made their choice, and
9 now they are trying to say, Well, don't blame us for
10 it; blame somebody else. You can't do that.

11 MR. SILVERMAN: It goes to the causation,
12 you know. "The Chinese made us do it." But that's
13 not true. As Mr. Seaman testified, they went over
14 there and encouraged some of these factories to enter
15 the U.S. market to meet the standards of the
16 consumers. The Chinese didn't make them do it. They
17 invited them. They wanted them to.

18 So you say to yourself, what is the cause of
19 injury? If it's self-inflicted, can the Commission
20 consider that? If it comes from third countries where
21 they are actively, as we speak today, trying to get
22 low-priced imports, should the Commission consider
23 that? Certainly.

24 I think, in the most recent case I'm
25 thinking of is the case involving circuit breakers

1 from South Africa, the Commission considered greatly
2 the impact of imports from third countries, especially
3 when the domestic industry was involved in that. I
4 think the Commission has seen that before, and we hope
5 that they will take cognizance of it, even though they
6 tip-toed around it this morning, and I hope Mr.
7 Seaman's testimony will help you understand that. And
8 if you ever ask them about their activities in Brazil
9 or in Southeast Asia now, you would see it clearly.
10 So that bears on causation.

11 MR. REYNOLDS: Go ahead.

12 MR. SILVERMAN: I think I made the point.
13 Self-inflicted injury by reason of their behavior, not
14 only in China but also in Southeast Asia and Brazil,
15 bears on the quantity effect, bears on the price
16 effect because that's part of causation.

17 MR. REYNOLDS: It was interesting, what Mr.
18 Seaman was saying about who went first to China, and I
19 guess the question for is, on the record that we have
20 here in this prelim., which is a much smaller record
21 than we might have at a final, how do we resolve the
22 issue, the debate that seems to me to be going on
23 between your group of representatives and the
24 industry, which is, no, they went first; no, we went
25 first? There is a debate here, and how do you show

1 that in our record as it stands?

2 MR. SILVERMAN: The people who were here
3 earlier today ought to tell the Commission how many
4 times they visited, how many agents they have used in
5 all of the trips they have made in these countries.
6 They have the data to show you how far back it goes.
7 We may be able to get it from some of the producers in
8 China but not necessarily the producers in some of
9 these other countries. They made all of these trips.
10 They have agents out there asking for lower prices
11 right now. They ought to be able to supply that at
12 least for the period of investigation, and if you want
13 it, the Commission wants it, you can go back to the
14 earlier period.

15 MR. REYNOLDS: Well, in response, as a
16 lawyer -- I always hate to be an investigator, but I
17 guess the opposite side of the coin would be how often
18 have your people done that as well? I'm not going to
19 suggest that I'm making a formal request that people
20 do that. That is going to require an extraordinary
21 amount of work on people's part, but if either side
22 chooses to do it, the other side should know that it
23 probably should do it as well. It just seems that, in
24 the context of what we're doing here, that sort of
25 history of contacts over a five, ten-year period would

1 be very, very difficult for either side to do.

2 MR. GREENWALD: We'll do our best to provide
3 you with specific times, dates -- the Chinese
4 factories ought to know -- and give you a record.

5 MR. REYNOLDS: On pricing, what I think I
6 heard is that there is, again, a disparity between the
7 industry's presentation this morning somewhat and your
8 presentation, and that's not a comment on either side.

9 I heard that the Chinese and the Malaysians
10 have less incidents of defects. There is a high
11 incidence of defects for the U.S. producers that
12 you've seen in JC Penney. I think you also said the
13 same thing, that you saw a fewer amount of defects. I
14 think you also said that the quality actually is much
15 higher for the Chinese products that you're seeing
16 here.

17 And what we would normally expect, with
18 everything else being similar, is that we would see
19 that the higher-quality, less-defect, interchangeable,
20 substitutable product would be priced the same or
21 higher than the domestic product here, even if it has
22 a cost advantage, because everyone wants to increase
23 their profits, to the extent that they can.

24 So Mr. Dorn would point out to me, well,
25 they may be higher quality, but the fact that they are

1 dumping -- not dumping, but they are selling at lower
2 rates -- if you are, that's suggesting that you're
3 selling at a price that's lower than you should if
4 your quality is higher. If that's occurring, why
5 would it occur, or do you disagree with the notion
6 that it is occurring? Do you think that you're
7 selling at higher prices? I hope that was clear.

8 MR. SEAMAN: There is really no simple
9 answer to what you're saying. In our case, what made
10 a very large difference was the box. You know, it was
11 a five-dollar box. It wasn't the cost; it was just a
12 listening to do it. In some cases, quality is a
13 series of inspections. You know, if it's cheaper to
14 have an inspector in China than it is in the United
15 States, you could have 10 inspectors in China; you're
16 not going to ship a defective product.

17 A lot of times, quality is a mindset. You
18 know, a lot of the Asian factories, and this is not
19 just China, the quality is better -- our quality from
20 Vietnam and Malaysia is approaching very close to that
21 of China. It's a question of new production
22 facilities, new producers' mentalities, willingness to
23 satisfy the customers. A lot of these better
24 manufacturers here had a lock on the bedroom market,
25 you know. They are cousins. There aren't that many

1 of them. Okay? And I don't mean that in a negative
2 way; it's just a fact of life. This is where the
3 furniture manufacturing was. And so, you know, a lot
4 of the plants are old. Some of the equipment may be
5 new, but a lot of the plants are old.

6 And so we've found, as a buyer, a tremendous
7 amount of willingness on the part of newer vendors in
8 general to adhere to the quality standards that we
9 need than older vendors. So I don't know what's a
10 cost factor. I don't know what's a willingness
11 factor, and so forth. But in terms of pricing,
12 pricing is a whole different story.

13 At Rooms To Go, we're using our Chinese
14 bedrooms for sort of the higher-priced goods. We're
15 getting the lower-priced goods out of Malaysia,
16 Vietnam, and Brazil. So, you know, in our case, and
17 this is not 100 percent across the board, but in our
18 case, because the Chinese bedroom manufacturers have
19 had years of experience, okay, they have the ability
20 to make the more complex bedrooms. There is really
21 price inflation on our side. Now, I would say we're
22 getting better value today, but there is price
23 inflation.

24 MR. REILLY: John Reilly, Nathan Associates.
25 I think there's some economic elements that are

1 pertinent here, and I want to use the JC Penney
2 example to start with. The quality problem that JC
3 Penney experienced with the U.S. producers was an
4 unacceptably high rate of defects, the defect rate so
5 high that, as a practical matter, one can't make money
6 as a retailer of furniture when you have defect rates
7 that high.

8 What that caused was a substitution away
9 from the domestic producers because the cost of buying
10 from them was so high, i.e., the defects, in favor of
11 importing from sources who had much lower defect rates
12 and much lower costs of buying. That permitted an
13 expansion of margins and an increase in the profit
14 from selling the good at the same price, for the same
15 group of customers at the same price points.

16 A very similar situation for Rooms To Go,
17 but in the case of Rooms To Go, the situation was the
18 willingness of the foreign producers to accept a very
19 economical and rational fix that Rooms To Go had come
20 up with on its own.

21 Now, another point about price inflation,
22 and, again, getting into economic theory a little bit,
23 and it has to do with Jeff Seaman's comments about him
24 being able to increase his average price point. Now,
25 he was able to increase his average price point by

1 providing incremental value that drew additional
2 people into his store or caused customers who may have
3 been looking at something of higher quality than a
4 lower price point but feeling that they couldn't quite
5 afford it.

6 But in so doing, he didn't eliminate at all
7 the opportunity for the customers who couldn't quite
8 afford that to come in and buy at a very reasonable
9 price because what was there before he added the
10 incremental product at a higher price point with
11 higher value, what was there before remained.

12 So the customers who perhaps wouldn't be in
13 the market for that higher-priced product still had
14 the opportunity to buy a lower-priced product. It
15 wasn't a question of increasing price in a market with
16 a highly elastic demand, which, of course, is an
17 irrational strategy.

18 MR. REYNOLDS: To some extent, you're saying
19 that the fact that you have a sort of more profitable
20 but low price more quality product has expanded demand
21 at certain levels of the market. Is that what you're
22 saying?

23 MR. REILLY: Yes, in two ways. In two ways,
24 it could possibly have drawn people from actually
25 higher segments of the market down into this segment

1 because of the higher perceived value, i.e., why go
2 and pay X-plus dollars for a good-quality set with
3 carving and so forth when I can buy here? And some
4 folks who may have been interested in higher quality
5 but felt they couldn't quite afford it would trade up
6 if the price differential between the higher-quality
7 good and the lower-positioned good was reduced.

8 MR. SEAMAN: Higher quality does not bring
9 new people into the market. It's really higher
10 design, you know. What the Chinese bedrooms and
11 overseas bedrooms allowed us to do, like if you look
12 at even that Indonesian bedroom, it's the capability
13 of doing some real kick-ass designs that bring
14 customers into the market. The quality issue is more
15 of an internal issue, you know. As retailers, we have
16 to satisfy the customers. If we deliver a dresser of
17 bad quality, we're going to take it back, and so it's
18 an internal issue mostly, but it's an important one.

19 MR. REYNOLDS: It seems to me that there's
20 sort of two different issues of quality here. One is
21 you have variations in expensiveness [sic], design,
22 material input, and we've been referring somewhat to
23 that as low quality or high quality, and then there's
24 quality variations within each of these market
25 segments, and those are two different issues, and

1 that's the defect issue.

2 Just a quick methodology issue. In the
3 petition, Mr. Dorn suggested that the best way to
4 measure market penetration and quantities, essentially
5 volumes, for both the domestic and the import side was
6 value based rather than a quantity-based measure. Do
7 you agree with that? Does it matter what we do?
8 Should we do both? I'll leave it to you.

9 MR. GREENWALD: The problem is product mix.
10 We don't really disagree with Mr. Dorn on everything,
11 and that might be one area. It is true that if you
12 build a million nightstands, you're building a million
13 nightstands, but that isn't as big as a million or
14 500,000, whatever, king-size beds. There is a
15 product-mix issue, and I don't really see how you get
16 at it through quantity.

17 MR. REYNOLDS: Again, there is another
18 dispute somewhat in the hearing today, which is the
19 industry suggests that what we're going to see when we
20 look at demand, and it's had an impact -- what we're
21 going to see when we see demand for this product,
22 consumption, is that consumption and demand have
23 increased primarily due in the overall market to
24 increases in the strong housing market, housing
25 starts.

1 You've told us that demand is declining
2 because of the recession. Is there a way of
3 reconciling those because perhaps demand in new
4 housing markets and new furniture in residential areas
5 is increasing, and other segments of the market are
6 increasing, or is there just an inconsistency there
7 that we're going to have to resolve by looking at the
8 record?

9 MR. CHIPPERFIELD: We have been struggling
10 with that question for some time now. If you had
11 asked me three years ago what does the furniture
12 industry track, I probably would have told you, well,
13 we watch energy costs, we watch interest rates, we
14 watch even auto sales, we watch housing starts because
15 there has always been a connection historically
16 between furniture sales and housing starts.
17 Historically, there has always been a lag, about six
18 to nine months for existing home sales, about a year
19 for new home construction.

20 What we have seen, though, over the last
21 couple of years has been a disconnect between those
22 two lines, where the housing market has continued to
23 be strong, and the furniture industry has not. We've
24 been trying to figure that out. The only explanation
25 that we can come up with -- well, there are two. One

1 is that, especially in second-home markets, Florida,
2 for example, there are a number of people who are
3 building large homes but not completely furnishing
4 them, and we have more than just anecdotal evidence of
5 that.

6 We have people telling us that there are
7 people who, because of the interest rate environment,
8 essentially are overspending for the home. They will
9 furnish the master bedroom, perhaps the family room,
10 they will get the kitchen fully equipped, and the rest
11 of the rooms will just sit there, and they are
12 waiting. Waiting for what? I don't know, but they
13 are waiting.

14 The other explanation that we might have is
15 maybe it's been hitting us in the face, and we just
16 didn't notice it. Perhaps the reason for the relative
17 weakness of the furniture industry has been the
18 relative strength of the housing market. Maybe they
19 are stealing our money. We've seen the auto industry
20 giving away cars. We've seen people turning to
21 expensive appliances, plasma TVs, that sort of thing.

22 There is a limited pool of discretionary
23 income out there, and I think the furniture industry
24 has been impacted by that. But there is no question,
25 from what we've seen, if you chart this out over time,

1 that there has been a disconnect in the two lines
2 between furniture and housing.

3 MR. GREENWALD: Mr. Reynolds, we're at a bit
4 of a disadvantage because, unlike other cases, the
5 record -- we haven't been able to look at it. We're
6 just going to have to go through the questionnaire
7 responses, the import statistics, all of these things,
8 to try and segment it by sector. If you read some
9 annual reports, it's clear the hospitality sector is
10 weak. It's clear that there seems to have been a
11 disproportionate decline in demand at the relatively
12 high end of the market. But I can't give you a good
13 answer now to your question. It's a good question.

14 MR. REYNOLDS: And actually, we understand
15 that. It's 21 days after the petition was filed.
16 We're still getting our questionnaires back. Part of
17 the reason we raise these questions is so that when
18 you do get the questionnaires -- this is for both
19 sides -- you can address it, to the extent that you
20 can, in your post-conference brief. I don't fully
21 expect you to answer these with all of the statistics
22 and data at this point.

23 I guess, one last question, which is really
24 a silly little legal question for Mr. Silverman and
25 Mr. Greenwald. Is there a captive-production issue

1 here under the statute or not? I can't think of one.

2 MR. GREENWALD: If there were, I wish I had
3 thought of it.

4 (Laughter.)

5 MR. REYNOLDS: Does it apply, or does it not
6 apply? Do we have to worry about it?

7 MR. GREENWALD: I don't believe so.

8 MR. REYNOLDS: Okay.

9 MR. GREENWALD: But I don't know.

10 MR. REYNOLDS: And, Mr. Dorn, if you want to
11 address that in your brief, go right ahead, and that's
12 it. Thank you.

13 MR. CARPENTER: Mr. Benedick?

14 MR. BENEDICK: I have just a couple of
15 questions. First of all, Mr. Seaman and Mr. Reilly,
16 would you characterize demand for wooden bedroom
17 furniture as price elastic or inelastic? Why don't we
18 let Mr. Reilly answer first.

19 MR. REILLY: I would characterize it as
20 highly price elastic. As a matter of fact, I checked
21 a number of economics textbooks as I was preparing for
22 this case, and it seems that furniture is one of the
23 favorite products that's cited as an example of a
24 product for which demand is elastic to price, and they
25 even cite some numbers, which is rather unusual in a

1 trade case.

2 There have been a couple of estimates of the
3 price elasticity of demand for furniture.
4 Unfortunately, they are both rather old. One is the
5 classic study that was done by Heinrich, Hauffacher,
6 and Taylor back in 1970, and they come up with a
7 short-run elasticity on the order of -1.3. There was
8 another study that's cited from time to time that was
9 done actually even earlier, in 1960, and it was called
10 -- let's see -- "The Durability of Consumer Goods" by
11 Richard Stone and D.A. Rowe, and that's in the April
12 1960 edition of Econometrica. They come up with a
13 figure of -3.0, which, to my mind, is probably a
14 little bit high.

15 MR. BENEDICK: Was that a short run?

16 MR. REILLY: Yes, and it's not a firm
17 elasticity either. I thought, when I first looked at
18 it, this must be a firm elasticity, but it isn't. I
19 think it may be so high because it has a long period
20 during the -- period that basically is parallel with
21 the Great Depression, so I think there is probably
22 quite a different consumer situation in those periods,
23 and I think they are probably picking up some income
24 effects as well.

25 But on the estimate that was done by

1 Hautacher and Taylor in 1970, I think there the
2 numbers may be a bit low for a couple of reasons.
3 Number one, they did pick up in their data set the
4 post-war period, when there was a tremendous pent-up
5 demand for everybody. People, for example, were
6 paying under the table to get new automobiles, and
7 that phenomenon might have also affected furniture,
8 especially with the great rate of household formation
9 that was going there with the veterans returning from
10 the war.

11 In addition, the substitutes available for
12 furniture have expanded greatly since that study was
13 done.

14 MR. BENEDICK: Such as?

15 MR. REILLY: Such as high-end TV sets, such
16 as electronic games, such as personal computers, both
17 the home-style personal computer and the laptop; such
18 as CDs -- a vast sort of array of new products that
19 weren't prominent back when the study was done by
20 Hautacher. In addition, it would appear that the
21 second-hand-furniture market -- I'll call it the
22 "secondary furniture market" -- today is much better
23 organized and has much better information flow than it
24 had back in 1970, and I would credit the Internet in
25 part for that, the e-Bay phenomenon.

1 Those things said, I think that minus three
2 would be too high, minus 1.3 would be too low, and in
3 the post-hearing brief, between now and when it's due,
4 I'll think about what a reasonable range might be and
5 put it in there in my reasoning.

6 MR. BENEDICK: Let me ask you this. How
7 would the availability of rental furniture affect the
8 demand elasticity to purchase wooden bedroom
9 furniture?

10 MR. REILLY: Well, rental furniture --
11 basically, we're talking about residential furniture --
12 rental furniture, as I understand it, is employed
13 where people are transients, where they may have only
14 a temporary need for furniture, where they can't
15 afford to buy furniture, or where they are buying on
16 the rent-to-own plan. But I don't think that that
17 residential rental furniture market is large enough to
18 have a significant increase. I think it may have a
19 function of bringing people into the market who
20 otherwise would not be capable of coming into the
21 market.

22 MR. BENEDICK: One last question for you,
23 Mr. Reilly. Let me hold that thought for a machine,
24 and let me ask Mr. Seaman a question. I'll come back.

25 Mr. Seaman, have you noticed, as a retailer

1 of furniture, that the demand is price elastic. In
2 other words, if you lower the price by five percent,
3 that the total quantity demand goes up where you sell
4 more than five percent?

5 MR. SEAMAN: There is definitely some
6 elasticity, but I don't think it would be five
7 percent. I think there is sort of like a cutoff --

8 MR. BENEDICK: You're saying the relative
9 change in the price leads to a greater relative change
10 in the quantity.

11 MR. SEAMAN: I'm not sure relatively, but I
12 could tell you this. There are sort of price bands at
13 which most consumers are willing to buy from. It's
14 not an exact amount. And so if you can bring a
15 product from a high price to a middle price, okay,
16 you're going to sell more to those people in that band
17 that could afford it.

18 And I do think that even bedroom -- I don't
19 know if this was asserted -- maybe it wasn't -- that
20 it's just a functional item you put clothes in and
21 stuff like that. Even bedroom furniture is somewhat
22 of a fashion item and less so than living room
23 furniture, and to that extent, wherever you can sort
24 of give more for the money, you're going to attract
25 more business. Now, if it's the same exact product,

1 it's extremely price sensitive.

2 MR. BENEDICK: Okay. And the discretionary
3 nature of demand for this, does it require these new
4 offerings, these exciting new products, to stimulate
5 demand, much like you see in the auto industry where
6 they come up with new styling every year?

7 MR. SEAMAN: Without a doubt. You know,
8 there is always some demand that's just inherent.
9 When people buy a house, they need furniture. Now,
10 it's a question of did they have furniture before, and
11 they hate it, and now some turns them on, and they are
12 going to buy some new furniture? That's the job of
13 the retailer, really, is to try to stoke that demand.
14 And so I believe that there is a lot of that going on.
15 You can change the demand. It's not that there is a
16 certain amount of demand. I think that demand moves.

17 You know, the other thing is we compete with
18 a lot of other big-ticket retailers, you know, for
19 sort of discretionary income in items that are
20 financed. So, for example, if you go to Best Buy, and
21 a customer has a certain amount of credit they can get
22 from lenders, private-label lenders, and so if a
23 customer has only X amount of dollars that they can
24 borrow, they may have to make choices based on that.
25 And so to that extent, we are not just fighting for

1 the bedroom slots; we're fighting for other items.

2 MR. BENEDICK: Thank you. One question for
3 Mr. Chipperfield. This morning, the manufacturers
4 indicated that they had computer-driven routers and
5 carvers and that they could produce these carved,
6 intricate products as efficiently, if not more
7 efficiently, than they can in China. Has that been
8 your experience?

9 MR. CHIPPERFIELD: We do have computer-
10 assisted manufacturing equipment. We've got carvers
11 we've invested in.

12 The short answer is, no, you can't do
13 everything on a machine that you can do in China, and
14 oftentimes you wouldn't want to. The problem
15 sometimes with technology is that it's a little too
16 perfect, and in some items of furniture, the consumer
17 doesn't want it to look like it was made by a machine.
18 She wants it to look like it was hand carved, and
19 that's hard to do with a machine.

20 So there are some things that you simply
21 can't do. There are other hand-carving elements where
22 you -- I don't know how to describe this, but where
23 you have a hole that goes all the way through the
24 carving, like it's a ribbon of some sort, and there is
25 a hole that goes through. It's very difficult to find

1 a machine that can do that sort of thing, and those
2 machines tend to be very expensive. We've invested in
3 some, but I doubt that we would get the return on
4 investment that we would need in order to invest in
5 the much more expensive machines.

6 MR. BENEDICK: So the cost of the machine is
7 actually competing with the cost of labor, let's say,
8 over in China, Vietnam, Malaysia, Indonesia.

9 MR. CHIPPERFIELD: That's correct. It's a
10 cost/benefit analysis. You have to have a return on
11 investment, and if we find that we're buying a machine
12 to do something that, frankly, we could have done as
13 well or better at less cost overseas, that's what
14 we're going to do.

15 MR. BENEDICK: It's been commented several
16 times that the cost of labor seems to be the driver
17 where you go for the lowest-cost product. Obviously,
18 more things go into producing a bedroom suit, for
19 instance, the materials, I'm thinking, the wood. All
20 of those taken into consideration, it's still cheaper
21 to produce, obviously, some items in China or Vietnam
22 or Indonesia than it is here in the U.S.?

23 MR. CHIPPERFIELD: It is less expensive.
24 Our experience is that the raw-material issue is not
25 an issue. All of these countries seem to buy from the

1 same suppliers out there. I've heard it said that all
2 of those containers that come over here full of
3 furniture go over there full of wood, and it comes
4 from market economies. The raw materials are
5 generally not an issue. Overhead is generally not an
6 issue. It seems to boil down to labor.

7 Now, I don't want to say that labor is the
8 only factor here. You have to do business with
9 someone you can rely on, and we have found certain
10 factories over there where we like to do business
11 because we have a good relationship with the folks
12 over there, we know they do good work, we know that
13 we'll get timely delivery, and we're not always
14 looking for price. We may pay up a little bit in
15 order to get our products sooner or better. In fact,
16 we will in order to get them sooner or better.

17 I heard a comment this morning that sent a
18 shiver up my spine. Somebody said price is
19 everything. Price isn't everything; it's the product
20 is everything. One of the problems with this industry
21 and, frankly, with this entire conversation is we're
22 almost trying to draw an equality between a flat-pack
23 paper overlay, boxed-up product that you buy at Target
24 and take it home and slap it together with a \$30,000
25 armoire that you might get from a company like

1 Henredon or Baker or Century. It's not the same
2 thing. Sure, it's all furniture, but it's not the
3 same thing.

4 If you have the products, consumers will pay
5 for those products. The consumer knows what she
6 wants, and, sure, price is important, and,
7 unfortunately, our industry has damaged itself by
8 advertising on price, and consumers are now trained, I
9 think, to wait until the next sale before they go out
10 and buy furniture, but it doesn't have to be that way.
11 I got a little off the subject.

12 MR. GREENWALD: Let me go back onto the
13 subject. You asked the right question: Why are we
14 emphasizing labor so much, and why do we go back to
15 the economic fundamentals? In some sense, it may be
16 naive, but there is an expectation that economics
17 matters to a commission that is responsible for making
18 serious economic decision-making, serious economic
19 decisions.

20 On this question of materials, I said, in my
21 opening remarks, that the petition is a fraud, and I
22 meant that. It's a harsh thing to say, but it is
23 absolutely true that the large, Chinese manufacturers
24 get their raw materials, veneers, from the United
25 States, pine from New Zealand, particle board from the

1 U.S., glue from the U.S., finish from Axo in
2 Singapore. These are the same suppliers that supply
3 the domestic industry, and they know that.

4 The idea that this petitioning group is
5 allowed to get away with a petition that asserts
6 margins based on basket categories of woods in Indian
7 import statistics ought to offend you all, as serious
8 economists or analysts. Now, I don't know that we can
9 do anything about it. Letters have gone in from
10 domestic manufacturers saying this petition is based
11 on a fraud, and they know it to be a fraud.

12 They have visited -- Bassett, Stanley,
13 others, have visited the factories in China. They
14 know where they get the raw materials, and they know
15 full well that, in fact, the economics comes down to a
16 very heavy emphasis on the labor differential, and
17 that's why -- I don't know whether it was you that
18 asked the question, and it was greeted by what I
19 considered to be just an embarrassing silence where
20 the Petitioners are unwilling to say what everybody in
21 this room knows to be true.

22 MR. BENEDICK: I have one last question --
23 thank you, Mr. Greenwald -- for Mr. Chipperfield. We
24 asked price data in our questionnaires, producers and
25 importers, on a net FOB, selling-price basis in the

1 U.S., but for those retailers who imported directly,
2 we asked for the landed, CIF duty-paid cost price.
3 Generally, we consider that to be about the same level
4 of the market as the net FOB selling price. Do you
5 consider that to be comparable, and if you want to
6 answer that in a post-conference brief --

7 MR. CHIPPERFIELD: Yes. I confess to not
8 being an economist, and you've used some concepts
9 there that I'm going to trip on --

10 MR. BENEDICK: Okay.

11 MR. CHIPPERFIELD: -- if I try to; let me
12 answer it this way. Most of the product involves a
13 lot more than what it appears at the beginning.

14 MR. BENEDICK: You're getting at what
15 I suspected.

16 MR. CHIPPERFIELD: Yes. There's a concept
17 that we talk about quite a bit, which is the
18 distinction between first cost and final cost. First
19 cost is pretty easy to figure out. You figure out how
20 much you've got to pay the guy over there to
21 manufacture it and how much you've got to pay to get
22 it over here. That's first cost. That's pretty easy.
23 All of the other factors, though, that eat away at --
24 oftentimes on an unknown basis, you don't know the
25 costs are there until suddenly you realize you've just

1 run out of cash or your earnings are going down
2 because you're paying for things like taxes and
3 insurance and additional warehousing and the capital
4 costs of your money. You've paid for that product on
5 the dock over in the Far East, you own it all the way
6 across the ocean, so your capital is being tied up.

7 We have been saying for a long period of
8 time now that if you take the same product,
9 manufacture it in North Carolina and land it in a
10 warehouse in North Carolina, take that same product,
11 manufacture it in the Far East, it doesn't have to be
12 China, it can be Vietnam, Indonesia, Malaysia, it
13 applies to all the countries, manufacture it over
14 there, load it in containers on a dock in Hong Kong,
15 bring it across the water, land bridge it across the
16 United States, land it in that same warehouse in North
17 Carolina, you will generally see somewhere between 3
18 and 5 percent better margin on the imported product
19 than on the domestic made product, if it's all done
20 right.

21 There are a lot of ways you can trip up
22 along the way. You can over order this product and
23 now you've got an entire warehouse sitting there full
24 of this inventory that you've got to get rid of. You
25 can under order and now you've got the opportunity

1 costs. So there are a thousand different ways to trip
2 up, but done right, that's been our estimate for some
3 time, 3 to 5 percent maybe is the advantage. And it's
4 labor-related and it applies to all countries,
5 Malaysia, Vietnam, China is no different.

6 MR. BENEDICK: If you'll allow me, I have
7 one more follow up question.

8 MR. CHIPPERFIELD: Sure.

9 MR. BENEDICK: You sell to retailers?

10 MR. CHIPPERFIELD: Yes, we do.

11 MR. BENEDICK: Okay. Is there something
12 called just in time inventory here in the U.S. for
13 retailers or do they hold their own inventory?

14 MR. CHIPPERFIELD: It really depends on the
15 retailer. What exists in this industry, we call it
16 one to go, one to show, where they keep one on the
17 showroom floor and then they have one in the
18 warehouse. There are others who have much more
19 substantial warehouses where they do have immediate
20 delivery. There are other retailers we deal with who
21 order -- they don't sell what's on the floor, they
22 take an order and then they call us. Sometimes we
23 keep inventory in our warehouse and sometimes we have
24 to make it.

25 Generally on what we refer to in the

1 industry as case goods, wooden furniture, anything
2 that's made out of wood, a lot of that tends to be
3 inventoried. Upholstered products are different.
4 Those a lot of times tend to be made.

5 MR. BENEDICK: Inventoried by whom, though?
6 The manufacture?

7 MR. CHIPPERFIELD: Like I said, it could be
8 either.

9 MR. BENEDICK: Okay.

10 MR. CHIPPERFIELD: We do maintain some
11 inventory, but a number of the retailers do as well.

12 MR. BENEDICK: Okay. So the U.S. producers
13 wouldn't necessarily have an advantage there because
14 if you needed to get product from China it's going to
15 take much longer than from a U.S. producer?

16 MR. CHIPPERFIELD: The advantage in U.S.
17 production -- and keep in mind, we're a U.S. producer.
18 I've heard people refer to the industry, well, yes, so
19 are we. The advantage that a U.S. producer has is
20 more in the forecasting area than anything else. You
21 can forecast your way into this by just predicting how
22 much you're going to need from the Far East and
23 bringing it over in advance and then moving it
24 quickly.

25 That can be hard to do, depending on what

1 product you're talking about, but in domestic
2 manufacturing you don't have to be quite as -- your
3 pencil doesn't have to be quite as sharp on the
4 forecasting side.

5 MR. BENEDICK: Okay. Thank you.

6 No further questions.

7 MR. CARPENTER: Ms. Spalding-Masgarha? No?

8 Mr. Deyman?

9 MR. DEYMAN: George Deyman, Office of
10 Investigation. This morning there was some discussion
11 about market tiers, to the so-called good, better,
12 best or high end, middle range, low end. Is that
13 really something that is applicable to this industry?

14 MR. SEAMAN: Sort of. It's really more how
15 much you would expect a customer to spend. There's
16 definitely stratifications in the market, but it's not
17 really good, better, best. There's, I'd say, moderate
18 to high moderate and then there's expensive, but it's
19 very hard to define. We heard that, too, and I was
20 trying to think of a way to answer it if I was asked
21 and I can't really think of it other than to say there
22 are income ranges, retail ranges. So in bedrooms, I
23 would say the middle range is probably between \$1000
24 and \$3000 retail and above that.

25 MR. CHIPPERFIELD: I can take a shot at

1 that. I can't give you numbers but I can give you an
2 example of one in each and, frankly, we've tried to
3 get away from using concepts like good, better and
4 best because they just don't tell you anything. We
5 use concepts like lower priced, middle priced and
6 upper priced.

7 What we tell the investment community is
8 there's about a bottom one-third of the industry, and
9 by bottom I don't mean that in a derogatory way, but
10 in terms of price points, that is generally a
11 promotional sort of end, very price competitive, ready
12 to assemble furniture would be included in there, plus
13 other promotional lines.

14 That's the bottom third. Then you get into
15 what we call the middle third and in our company, it
16 would be companies like Broyhill and Lane. They're
17 sort of a middle price point company.

18 Then you have an upper third of the industry
19 and for our companies that would start with a company
20 like Thomasville and you'd go up from Thomasville in
21 price points to Drexel Heritage and Henredon. When
22 you get up into the Henredon, Baker, Century sort of
23 price point, that's way up there. Their target
24 consumer is less than 5 percent of the population.

25 But that might give you an idea of the

1 stratifications of the lower, the middle and the upper
2 end of the industry. It might be different for other
3 companies, but that's the most convenient way we've
4 found to describe it.

5 MR. DEYMAN: All right. Since we asked the
6 U.S. producers this morning to characterize their own
7 production as in various ranges, could you do that now
8 or in your post-conference briefs of the products that
9 you import and/or sell, whether they are in lower
10 price, middle price, high price?

11 MR. CHIPPERFIELD: We'll do that. I'll give
12 you just a brief answer now and we'll cover it in more
13 detail in the brief, but, as I said, we've got a
14 little bit of presence in the lower end. We've got
15 Broyhill and Lane covering the middle and we've got
16 Thomasville, Drexel and Henredon covering the upper
17 end.

18 In terms of imports, you see much more of
19 that, frankly, at the middle price points than you do
20 at the upper end for a number of reasons. A company
21 like Broyhill, for example, has very long production
22 runs and, to be honest, that's what a lot of the
23 offshore manufacturers are looking for. They like
24 efficiency, they like container loads of furniture.
25 And a company with a large revenue base like Broyhill,

1 for example, can provide that.

2 When you get up into the upper end
3 companies, the production runs, they're small
4 companies and the production runs tend to be shorter
5 and that's inefficient for them.

6 There's also a question of skill set.
7 There's a finishing process that goes into an upper
8 end product that just doesn't exist down in the lower
9 and middle price points and those skills are not over
10 there. But we can amplify that in the brief.

11 MR. GREENWALD: Both the importers and the
12 Chinese producers will provide you the data.

13 MR. DEYMAN: Very well. Thank you for your
14 presentation.

15 I must say, Dr. Reilly, your research and
16 preparation and presentation on the question of
17 elasticity was quite impressive.

18 MR. REILLY: Thank you.

19 MR. CARPENTER: Just a couple of questions.

20 Could anyone on the panel shed some light on
21 how long it takes to build a bedroom furniture plant
22 in China or some other country in the Far East, let's
23 say?

24 MR. GREENWALD: I can do that. I can give
25 you the names, but in some cases, it's as short as

1 three months to build a very substantial factory.

2 MR. CARPENTER: Okay. If you have any
3 further detailed information on timing --

4 MR. GREENWALD: I'll provide that. We'll
5 give you very specific examples in the post-conference
6 brief.

7 MR. CARPENTER: If you have any figures on
8 cost of construction, too, I'd appreciate that.

9 MR. GREENWALD: We'll add that as well.

10 MR. CARPENTER: Okay. Thank you.

11 Mr. McAlister, in your testimony, you spoke
12 a good bit about defect rates.

13 MR. MCALISTER: Yes, I did.

14 MR. CARPENTER: I was wondering if you could
15 shed some light on what constitutes a defect from your
16 perspective.

17 MR. MCALISTER: Yes. When you were talking
18 a little bit about the low, the mid and the high price
19 points, we don't look at quality as being by price
20 point, okay? When you start talking about price
21 points, I start thinking about the product package.
22 I start thinking about looking across over there and
23 saying to myself, okay, what type of wood are you
24 going to use, what type of handles or hardware are you
25 going to have, et cetera, like that.

1 What we have with J.C. Penney is a detailed
2 manual that we give to every furniture manufacture and
3 that describes each and every one of the defects. And
4 it can be as simple as you've got run on the finish,
5 the drawers don't glide properly, et cetera, like
6 that. So when we were looking at defects, there's a
7 manual, we've given it to all of our suppliers and
8 we've worked with them on all of it. It's very
9 detailed.

10 MR. SILVERMAN: Would you like us to submit
11 that?

12 MR. MCALISTER: We did submit it already.
13 It has been submitted.

14 MR. CARPENTER: Okay. So you obviously
15 communicate that to them. Do your suppliers do their
16 own inspections before shipping the product?

17 MR. MCALISTER: Yes, they do. What we've
18 done is we operate off of what's called a 4.0 AQL,
19 acceptable quality level. And what we recommend to
20 our manufacturers is to inspect at a 2.5 and all I'm
21 really saying there is that it's going to be a little
22 bit tighter inspection process than what we're going
23 to look at and by tighter I'm not talking about the
24 type of defect, what I'm talking about is the number
25 of defects that you can find before you're going to

1 fail the audit.

2 So in essence what we encourage our
3 suppliers to do is do a full final statistical audit
4 at 2.5. If you've done that and you've done it
5 properly according to our manual, you will never have
6 a problem with passing our audit at 4.0. And, quite
7 honestly, the suppliers that we have here
8 domestically, they were resistant to install our
9 quality control program. When we go overseas, they
10 embrace it. They ask for us to come over, they want
11 to have our furniture engineer come into their
12 facility, they want them to explain it to them, they
13 want us to have our factory evaluators work with them.
14 As they get into the process and the goods start
15 coming down the line, they like to have our inspectors
16 there to work with them on the classification of
17 defects, et cetera, like that. And that's the major
18 difference.

19 MR. CARPENTER: And when did you implement
20 this program?

21 MR. MCALISTER: Fourteen years ago.

22 MR. CARPENTER: Okay.

23 MR. MCALISTER: Fourteen years ago we
24 started and it's consistent for all suppliers and it's
25 by product. Our manuals are set up -- obviously, the

1 one that I supplied to you is for furniture, but we
2 would have a manual that's going to be for the apparel
3 ones, for soft goods, et cetera, like that.

4 MR. CARPENTER: Has there been any change in
5 the defect rate with respect to the U.S. product over
6 the last three or four years?

7 MR. MCALISTER: No, there has not. It's
8 been consistent.

9 MR. CARPENTER: Consistently high?

10 MR. MCALISTER: It's been consistently high.
11 Yes.

12 MR. CARPENTER: Okay. Okay.

13 Does anyone else have anything?

14 Mr. Fischer?

15 MR. FISCHER: I have just some questions in
16 general that can be answered by all perhaps in the
17 post-conference briefs and maybe perhaps Mr. Kemp now
18 regarding production facilities and plants in China
19 and if you have any sense of how many producers there
20 are, what share export to the U.S., how large the
21 Chinese market is and the growth of the Chinese market
22 versus exports to the U.S. and other markets.

23 MR. KEMP: I'm not sure I can totally give
24 you a great answer on that. The Chinese market as a
25 consumer market, as I have observed, I don't have any

1 numbers, but every time you go over there you see more
2 retail happening. There's a tremendous growth in the
3 consumer rate in China.

4 And from a factory perspective, it goes from
5 extremely small factories to the biggest factories
6 I've ever seen in my life. So you see a dichotomy of
7 the size of the plant and that to some degree works as
8 an importer as you place product because if you have a
9 product that you don't think there's a high volume in,
10 you would be looking for a small factory and,
11 obviously, if it's something that would be of high
12 volume you'd be looking for something that would be
13 capable of producing a high volume type product.

14 I know I was in a factory a week ago and
15 they actually produced flooring for the China market
16 and they told me that their sales were over a million
17 dollars a day. So that gives you some idea of the
18 consumerism that is starting to grow in China.

19 Does that answer --

20 MR. FISCHER: Yes, it does. Thank you very
21 much for that answer. We had asked for questionnaire
22 responses from foreign producers and that's going to
23 represent a limited set of Chinese producers perhaps
24 and if you could just enlighten us and supplement that
25 information to the extent you have any knowledge about

1 the size of the Chinese production.

2 MR. GREENWALD: We'll do that in the
3 post-conference brief, but you also should know that
4 this is one of these cases where the Chinese industry
5 is actually making a major effort to disprove
6 allegations that they feel are scandalous so that we
7 have, I think, a group of 30 or 40 of the larger
8 domestic Chinese manufacturers and it will be,
9 I think, a surprisingly large response, given past
10 Chinese cases.

11 MR. FISCHER: I have no further questions.
12 Thank you all for your testimony.

13 MR. CARPENTER: Mr. Deyman?

14 MR. DEYMAN: George Deyman again. I have a
15 question about the four pieces of furniture that you
16 brought here today. Is there any way that a consumer
17 can tell the country of manufacture of each of those
18 pieces?

19 MR. SEAMAN: I'm not sure. I mean, they're
20 labelled. They're labelled. But the reality is it's
21 not really relevant to the consumer. We give the
22 country of origin to our stores, but it's usually
23 stamped on the back, we label it ourselves.

24 MR. DEYMAN: Thank you.

25 MR. CARPENTER: Mr. Reynolds?

1 MR. REYNOLDS: I have just one question,
2 too.

3 I've been sitting here trying to figure out
4 why is it that the domestic industry is producing and
5 importing from China? We have producers who are
6 producing and importing from China and there's two
7 segments of the industry here, one supporting the
8 petition and one opposing it. This is sort of a
9 general question, and I'm not sure you can answer it,
10 but why is there this division in the industry that
11 you would see, Mr. Chipperfield?

12 Why are they filing it when they have
13 substantial imports from China and you're opposing and
14 presumably others like you?

15 MR. CHIPPERFIELD: I'll walk where angels
16 fear to tread. I'm not sure that I could give you a
17 short answer to that. I can't evaluate the motives of
18 the folks who are on the petitioning side, I can only
19 tell you why we have opposed the petition and I stated
20 that in my prepared remarks. First of all, we very
21 strongly don't believe that there's been anything
22 resembling what I understand as dumping of products.
23 These are products that we go over and we negotiate a
24 price and we deal with people who, as far as I can
25 tell, are making some pretty good money because

1 they're building some additional factories, so this is
2 a pretty level playing field as far as we're
3 concerned.

4 This is an extraordinarily divisive issue in
5 the furniture industry. There is no question about
6 that. There are some very strongly felt opinions
7 about it. I would hesitate, though, to characterize
8 why one would support it and why one would not. It
9 has to do, I think, just with the individual business
10 plan and strategic direction of the company you're
11 talking to.

12 MR. REYNOLDS: I didn't mean to imply that
13 there was some nefarious motive on the part of the
14 domestic industry.

15 MR. CHIPPERFIELD: And neither did I.

16 MR. REYNOLDS: And I know that you were
17 studiously avoiding that, too. Is there a competitive
18 advantage to your perspective for the producers who
19 are supporting it in terms of the market vis-a-vis the
20 people who aren't supporting it? I guess that's the
21 more specific question.

22 MR. CHIPPERFIELD: As I said earlier, I do
23 believe that a strong sourcing program as part of our
24 overall manufacturing process in conjunction with a
25 strong domestic program has been a good strategy for

1 us. I think it's helped us in our profitability, it's
2 given us the earnings and the cash flow to be able to
3 reinvest, to make our domestic operations even more
4 efficient by investing in technology and I believe
5 it's generated earnings for the shareholders.

6 As I said, this has been three pretty tough
7 years and saying that we've been generating earnings
8 for the shareholders, I may get shareholders attacking
9 me after the meeting saying no, you're not, but it's
10 positioned us in such a way that when the industry
11 does return to what I would think of as a more
12 normalized sort of consumer demand environment,
13 because of our cost structure and what we've been able
14 to do in the meantime, I think we're positioned very
15 nicely. So I do believe that there is a competitive
16 advantage. Sure.

17 MR. SEAMAN: I could answer that, too,
18 I have an opinion on it. I really think it's because
19 they lost control. You had a small group of
20 manufacturers who had a lot of control in a better
21 market. They went overseas long before a lot of
22 retailers did, they brought the product in, they
23 marked it up and then it was still good enough that it
24 sold at retail or markup. But then the retailers were
25 smart enough to do it ourselves. We don't need the

1 manufacturers to bring in product from China or
2 anywhere else, mark it up and charge us. And so as
3 soon as a few retailers did it, we were probably one
4 of the early ones, every other retailer had to follow.

5 So if you were Vaughan Bassett,
6 hypothetically, bringing in a bedroom for \$1000,
7 reselling it to some of their customers -- I don't
8 know if they were sitting here, but one of their
9 customers for \$1500 and that retailer sells it for
10 \$3000, then you have another retailer who says we
11 don't need you, Mr. Vaughan Bassett, to import for us,
12 we bring it in, we pay \$1000 or \$1100 to import it and
13 we sell it for \$2000, well the retailers selling it
14 for \$3000 are going to try to import it themselves.

15 And so once that loss of control happened
16 is, I believe, when all the excitement happened.

17 MR. REYNOLDS: Thanks very much.

18 MR. BENEDICK: I just have one request of
19 Mr. Greenwald. In your post-conference brief, could
20 you discuss the extent to which China exports to third
21 countries and why they do or why they don't?

22 MR. GREENWALD: Yes.

23 MR. BENEDICK: Thank you.

24 MR. CARPENTER: Thank you very much for your
25 testimony and for your excellent responses to our

1 questions.

2 We'll take a brief recess until about 3:10,
3 at which time we'll proceed with the closing
4 statements.

5 (A recess was taken from 3:01 p.m. to
6 3:11 p.m.)

7 MR. CARPENTER: Mr. Dorn, you can begin.

8 MR. SPILMAN: My name is Rob Spilman.
9 Again, I'm President and CEO of Bassett Furniture
10 Industries and I would just like to say that we did
11 business with J.C. Penney for 30 years. Penney
12 required weekly inspections at virtually every plant
13 of ours for those 20 years that I've been associated
14 with the company. We employed three full-time
15 employees to do nothing but work with Penney
16 inspectors, in addition to a full complement of
17 quality staffs at each one of our plants which was 10
18 to 12 people.

19 Quality was never mentioned when the
20 domestic products that we made were discontinued for
21 much cheaper imports. Never. All U.S. vendors were
22 removed in bedroom, including the Furniture Brands
23 division, Broyhill.

24 We were compliant with all of their programs
25 and there was a rigorous process to comply with:

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1 lighting, housekeeping, voluminous documentation,
2 plant layout, et cetera. And, again, we received in
3 1999 the Supplier of the Year award and on the plaque
4 quality standards was one of the criteria for this
5 award.

6 Thank you.

7 MR. DORN: Let's begin where there's no
8 dispute in this case. There's no dispute that the
9 volume of imports from China is significant. It's
10 huge, a billion dollars worth. There is no dispute
11 that there has been a significant increase in the
12 volume of imports from China. Again, huge, a half a
13 billion dollar increase in imports from 2000 to 2002
14 and it's increasing another 50 percent from 2002 to
15 2003.

16 There is also no dispute there's been a big
17 shift in market share away from U.S. producers to the
18 imports. How do I know that? Rooms To Go came here
19 and told you that. J.C. Penney came here and told you
20 that. They're two of the biggest retailers in the
21 country. Thank you very much. There's been a big
22 shift in market share so the volume impact has been
23 very substantial.

24 Let's turn to Mr. Greenwald's key questions.
25 What is driving the rise in imports? All the

1 testimony I've heard suggests one thing: it's lower
2 prices. There's no dispute about underselling. In
3 fact, they claim that there's underselling even though
4 their quality is allegedly better than the U.S.
5 product.

6 What did Mr. Seaman emphasize over and over
7 again? Price points. Price points. Price points.
8 He didn't talk about quality points, design points.

9 The only thing that's driving the shift in
10 market share away from the United States to the
11 Chinese is price. That's the only thing that can
12 explain the half billion dollar increase, the
13 121 percent increase in imports from China from 2000
14 to 2002.

15 Second key question from Mr. Greenwald: Are
16 imports hurting the U.S. industry? He'd like to
17 rewrite the statute. He'd like to look at overall
18 company operations including imports, but the statute
19 doesn't say that. The statute asks the commission to
20 look at the impact of imports on domestic producers
21 producing the domestic like product and the impact on
22 the U.S. production facilities and U.S. workers.

23 Now, Furniture Brands. Furniture Brands has
24 been more hurt by imports from China than any member
25 of our coalition, but they just won't admit it. In

1 fact, since January 2000, Furniture Brands has had to
2 close a number of factories that produced bedroom
3 furniture. Furniture Brands has said that they're
4 going to establish manufacturing operations in Asia.
5 They will not admit today how much they've been hurt,
6 however, because of several reasons. They're just
7 afraid to do so. They're afraid that those Chinese
8 factories will cut it off if it does not oppose the
9 petition, just as some Chinese factories have
10 threatened to cut off some of the other U.S. producers
11 that occasionally import.

12 Furniture Brands is afraid that some of its
13 major retail customers will stop buying its product if
14 it doesn't oppose the petition, just as some major
15 retailers have threatened some of the members of our
16 petitioning group and other members of the U.S.
17 industry that produce bedroom furniture.

18 Most importantly, Furniture Brands is afraid
19 because it has bet the future of its company on dumped
20 imports from China. It cannot afford to tell Wall
21 Street that its strategy is predicated on unfairly
22 priced imports.

23 Prior to this antidumping case, however,
24 Furniture Brands was not at all shy about talking
25 about the adverse impact of imports on its workers who

1 were laid off when these various plants closed. Eight
2 times Furniture Brands came to Washington, D.C. and
3 applied for trade adjustment assistance for its
4 displaced workers and in each case it cited the fact
5 of increased imports. And in each case, the
6 Department of Labor certified the employees as
7 eligible to receive adjustment benefits based upon a
8 finding that increased imports contributed materially
9 to their layoffs. So if you want know the truth, look
10 at the trade adjustment assistance applications from
11 Furniture Brands.

12 Next question from Mr. Greenwald: Will
13 duties on China cause a shift to other countries?
14 First of all, it's not a statutory factor. We're
15 looking at the past, we're not looking at the future.
16 This is not a sunset review, this is not a
17 counterfactual analysis, it's a factual analysis. We
18 look at the past. But the past is prologue to the
19 future and if you want to look at what's going to
20 happen in the future, look at this chart right here.

21 From 2000 to 2002, the increase in imports
22 from China was over half a billion dollars.
23 Mr. Chipperfield mentioned Indonesia, the Philippines,
24 Malaysia, Vietnam and South Africa. Peanuts.
25 Negligible.

1 Mr. Greenwald talks about the great rate of
2 increase from Vietnam. Well, the increase is based
3 off a very, very negligible number. In fact, imports
4 from Vietnam don't even meet the 3 percent
5 negligibility test under U.S. law. We couldn't
6 include Vietnam in a case if we wanted to.

7 Now, with regard to pricing, any economist
8 can tell you that when you've got a country that's
9 supplying that volume of imports to the United States
10 and the increase is as dramatic as it's been from
11 China that the Chinese are the price leaders.

12 Now, if the Malaysians want to sell a
13 product or Indonesians want to sell a particular
14 product, they've got to meet the import prices from
15 China on that individual product. It doesn't take
16 away the fact that China is the 800-pound gorilla,
17 China is the price leader, China is the problem
18 affecting U.S. prices.

19 In fact, I think Mr. Seaman agrees with us.
20 When he was quoted in "Furniture Today," he said,
21 "Rooms To Go buys from all over the world," he said,
22 "but the fact is you have some incredibly large, well
23 run, high quality manufacturing plant supplying
24 bedrooms in China. If that were limited, it would
25 create less choice and drive up prices."

1 Economics 101. Take away that billion
2 dollars of product from China, what's going to happen
3 in the U.S. market? What does economics tell you?
4 First, there's going to be a shift in market share
5 back to the United States. Second, prices are going
6 to rise. Obviously, without the dumped imports from
7 China the U.S. industry would have a higher output,
8 would have higher prices, and would have higher
9 profitability.

10 The discussion of non-price factors was
11 really a red herring. It all comes down to price.
12 You can quibble about a defect here or a design here,
13 but nobody on the other side denies the fact that the
14 pricing is much lower from China than from the United
15 States and that's what's driving the shift in market
16 share.

17 Now, Mr. Greenwald has trouble coming up
18 with a position on like product and some other issues
19 because he said he's only had 21 days. We announced
20 in the Wall Street Journal on July 15th that we were
21 filing an antidumping petition against imports of
22 bedroom furniture from China. I would suggest he's
23 had plenty of time to set forth his position on like
24 product and these other issues. But on like product,
25 given all the testimony in the record today, it would

1 make no sense at all to disassemble a suite in
2 assessing the impact of imports on this industry. It
3 would be crazy. It's not how the importers look at
4 the business, it's not how the Chinese look at the
5 business, it's not how the U.S. producers look at the
6 business. The like product here is wooden bedroom
7 furniture.

8 Thank you very much.

9 MR. CARPENTER: Thank you, Mr. Dorn and
10 Mr. Spilman.

11 Mr. Greenwald and Mr. Silverman?

12 MR. GREENWALD: Apparently petitioners'
13 counsel, and I assume petitioners, didn't listen or
14 certainly they didn't hear very well when we were
15 giving our testimony. I wasn't going to give a
16 rebuttal, but obviously if not for the commission it's
17 needed so that the other side understands what we've
18 said and why the testimony was given.

19 He went through the questions I posed and
20 gave his own answers, including something that I was
21 taught never to do: give your own answer that
22 purports to tell the audience what somebody else is
23 thinking. That's not a very smart thing to do,
24 especially if you don't listen to the testimony.

25 What is driving the rise in imports? His

1 answer, price. Lynn Chipperfield in his testimony
2 made a very clear and a very powerful statement that
3 he hoped people would understand that it isn't just
4 price. JEff Seaman in his testimony made a very clear
5 and a very powerful statement that in fact imports
6 from China have allowed him to raise the price of his
7 product offerings.

8 The fact of the matter is China has
9 advantages, principally in labor. China makes a good
10 quality product, but China is not the low priced
11 producer by any stretch in this market and that
12 testimony was made very clearly and I hope when
13 petitioners go back and read the record they'll
14 understand what was said and not what they want to
15 hear.

16 Second question: Are imports from China
17 harming the U.S. industry? If a case is based on
18 counsel for petitioners' assertion that the largest
19 U.S. manufacturer doesn't know what's good for it, but
20 counsel for petitioner does, then it seems to me that
21 it is a case that deserves to be thrown out at the
22 preliminary determination. Imports from China have
23 helped a number of U.S. manufacturers, including
24 petitioners, broaden their product line by allowing
25 them to sell intricate products that they cannot make

1 economically in the United States.

2 Furniture Brands has pursued a successful
3 blended strategy. It is stronger for it, it is a
4 better company. It is true that Furniture Brands
5 cares about its workers so that when the adjustment
6 assistance issue comes up and the sole question is
7 should labor get relief, the Furniture Brands' answer
8 is quite properly yes, but that's not what the statute
9 asks you to look at in this case, it's whether the
10 U.S. industry is injured or not and I would submit
11 that the testimony uncontradicted is that the U.S.
12 industry in fact is better off with its blended
13 strategy and it isn't just Furniture Brands.

14 It's a mistake for anybody to look at an
15 article and from that article pronounce what a company
16 that he does not represent intends to do. You heard
17 Mr. Chipperfield say Furniture Brands is committed to
18 U.S. production and nothing more need be said on that
19 point.

20 Third question: Will trade restraints on
21 imports from China do anything except shift sourcing
22 to even lower priced imports from non-subject
23 countries? The answer to that question is no.
24 I thought we would spare Mr. Kincaid further
25 embarrassment about his company's plans to take their

1 production or their sourcing from to China to Vietnam,
2 but obviously that message didn't get across and what
3 I would like you to do is to replay the tape if you
4 have a quiet moment and you'll find out what this case
5 is doing.

6 Vaughan Bassett is in Brazil, La-Z-Boy is
7 shifting to Vietnam. You see those numbers up there
8 and you look at Vietnam and you say, boy, why do we
9 care about that? In fact, the nine-month 2003 number
10 is 28,660,000 and it's only getting larger, as the
11 testimony you heard indicates. The 2000 number for
12 Vietnam, I believe, is .1, so if you want to talk
13 about percentage increases, it's in the 10,000 area.

14 All the petitioners are going offshore and
15 they're doing so deliberately and it underlines a
16 fundamental point about the hypocrisy that bred this
17 petition.

18 Now, I can come in here and I can talk about
19 hypocrisy and I think that is proven, but I'd like to
20 make a final point and I suppose the audience for this
21 final point is any domestic manufacturer that is
22 considering whether to support it or not. What this
23 petition is going to do is create an incentive, and
24 you can see it in petitioners' behavior, to expand
25 capacity all over the world. And it may take six

1 months, it may take nine months to do it, but those
2 jobs and production are not coming back to the United
3 States. Prices in the United States are not going to
4 rise because they cannot because of the price point
5 issues that were made.

6 Jeff Seaman didn't say price drives things,
7 he talked about price points and the issue there is
8 the nature of demand won't allow anybody, whether it's
9 U.S. or Brazilian or Vietnamese or Chinese, to sell at
10 above, let's say, \$3000 if you're trying to reach the
11 middle point of the market. There are demand
12 constraints on pricing.

13 Fundamentally, what petitioners are asking
14 you to do is to ignore basic economics, ignore
15 comparative advantage, ignore their own behavior, and
16 nevertheless issue an affirmative determination that
17 keeps a case going that is based on misrepresentations
18 of fact and a course of action that will cause the
19 U.S. industry far more harm than it will do good.

20 MR. SILVERMAN: Let me just say with respect
21 to the testimony or rebuttal testimony on Penney's
22 evaluation of various domestic producers and in his
23 rebuttal you heard a representative of one of the
24 producers. He never denied that the defect rate is
25 eight, ten times what it is for imports. His point

1 was, well, in 1999 we got a nice award from Penney.
2 But if you heard the testimony, you realize that it
3 was after 1999 in the period of investigation that
4 these problems of quality skyrocketed. I've been
5 doing this for a long time, I'm always looking on the
6 respondents' side, for example, for non-price factors
7 and the Penney's data, hundreds of audits, hundreds of
8 audits, as the result of an enormous differential, how
9 can you expect anyone to buy a product with 50 percent
10 defect or 22 percent defect? That's a major
11 purchaser. Penney's is not a small concern and you
12 can be sure if Penney's is facing that, other
13 retailers are, too.

14 You heard the representative from Rooms To
15 Go which is the largest retailer of furniture in this
16 investigation being turned away by U.S. producers when
17 all he wanted to do was to reduce the defect level by
18 having it in a box.

19 So the domestic side does what they always
20 do: they like to simplify things. If you have a
21 scorecard here, how many times did they say the word
22 price and how many times did they say the word
23 underpricing? They don't want the commission to get
24 to what's really going on in the market, whether it's
25 wage rates around the world, whether it's defect

1 rates, whether it's their refusal to make exclusive
2 brands or lines for independent retailers, another
3 reason people go to China, as you heard in the
4 testimony.

5 Keep it simple, don't get into the facts,
6 don't look at what really happened in the market on a
7 case-by-case basis. We have one of the largest
8 domestic producers here testifying, the largest
9 retailer. Penney's is also a major retailer in the
10 United States. I hope the commission will consider
11 that and not just go for the simple are imports
12 increasing at the same time that the domestic industry
13 evidences injury.

14 We hope you can look at this slightly below
15 the surface of their analysis and let's also think
16 about their rebuttal on the issue of how many times
17 have they and others in the domestic industry gone to
18 China even before the retailers went to China and
19 pleaded for lower prices? How many times did they go
20 to teach them what the styles were, what was necessary
21 to succeed in the U.S. market? How many tape
22 recordings do we have to have from them where they say
23 don't worry about the dumping case, we've already
24 lined things up for you in Vietnam? Did they rebut
25 any of that? They can't rebut it.

1 They're over there right now in Southeast
2 Asia trying to get the lowest possible price for the
3 quantities they want. There's a spot for that in the
4 statute, there has to be, causation, conditions of
5 competition or just plain wrong to ask the commission
6 to do something like this, whether you call it
7 hypocrisy or something else.

8 Thank you.

9 MR. CARPENTER: Thank you, Mr. Silverman and
10 Mr. Greenwald.

11 The deadline for submission of corrections
12 to the transcript is Wednesday, November 26th.

13 As to the deadline for briefs, we have
14 reviewed the submissions from both sides on this issue
15 and have decided for a number of reasons, including
16 Commerce's postponement of initiation, the number and
17 complexity of the questionnaires and the fact that
18 non-party questionnaires are still arriving and will
19 have to be released under APO, and by the way, we'll
20 try to get the APO releases out as early next week as
21 possible, and the additional information we have
22 requested today, that in the interests of developing
23 as complete a record as possible we will move the
24 deadline for briefs to Thursday, December 4th.

25 If briefs contain business proprietary

1 information, the public version is due on December
2 5th.

3 The schedule for the remainder for the
4 investigation will be announced at a later date.

5 Thank you for coming. This conference is
6 adjourned.

7 (Whereupon, at 3:35 p.m., the conference was
8 concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Wooden Bedroom Furniture from China
INVESTIGATION NO.: 731-TA-1058 (preliminary)
HEARING DATE: November 21, 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: November 21, 2003

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Donna Kraus
Signature of Court Reporter